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ABSTRACT

This report describes a project that reviewed existing materials on all aspects of entrepreneurship likely to be encountered by independent business persons. In addition to the review of books, periodicals, and newspapers, the project interviewed successful Pennsylvania entrepreneurs. A curriculum guide was synthesized that was relevant to the problems of selecting and operating a financially successful small business. The curriculum/student manual that was developed is attached. This comprehensive guide to high school study of entrepreneurship consists of 11 units that are self-contained and may be used in any sequence and combination. It is suggested that the guide be used in conjunction with current issues of the "Wall Street Journal." Each unit consists of these components: competency objectives; sections with informational material, each followed by a review (brief student evaluation); entrepreneur case study followed by a review; list of student learning activities; and unit summary. Unit title are entrepreneurship; entrepreneurial motives; choosing a business location; predicting success; financing and sources of money; marketing and advertising; business ownership options; expanding with employers; product sales, writing a business plan; and recordkeeping and taxes. A glossary is appended. (YLB)

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FINAL REPORT

Competency Based Entrepreneurship Training for Fulton County

Contract #85-9040

prepared by:
Cheryl Johnston

CENTRAL FULTON SCHOOL DISTRICT
McConnellsburg, PA

September 30, 1989

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CURRICULUM AND PERSONNEL DEVELOPMENT SECTION

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ACKNOWLEDGEMENTS

The Fulton County AVTS would like to acknowledge the outstanding efforts of George Metzgar in completing this project.

Mr. Metzgar demonstrated exemplary leadership and conducted exhaustive research in the development of this curriculu Combining his own entrepreneurial talents with his teaching experience, he succeeded in developing materials which are practical as well as relevant to Fulton County's student population.

Congratulations to George on a job well done!

ABSTRACT

"Competency Based Entrepreneurship Training for Fulton County" #85-9040 was written by the Central Fulton School District in McConnellsburg and was funded during the 1988-90 fiscal year for a total of $9,027.00. The purpose of this project was to adapt and utilize existing competency-based entrepreneurship curriculum materials for use in Fulton County. A needs assessment completed in fiscal year 1987-88 indicated that only 20% of this county's students go on to college, 77% of the vocational graduates currently reside in the county and most of the businesses and industries are of the small "mom and pop" variety.

In light of these facts three objectives were developed for this project. They were:

1. To integrate existing CBVE materials designed to teach entrepreneurship into existing and all future vocational programs in Fulton County.

2. To strengthen the linkage between vocational programs and the business/industry/service community.

3. To foster in vocational students a sense of empowerment and a heightened capacity to be successful, productive community members.

This project's achievements exceeded the original objectives. Extensive review of existing materials including PACE was conducted. Most of the materials were judged to be inappropriate for Fulton County's secondary vocational students due to vocabulary, topics covered and amount of material covered.

George Metzgar, entrepreneur and teacher served as the project's consultant. On the basis of his research and experience he synthesized existing curricula into a product suitable for use with county students.

Based on his knowledge of county students and resources his entrepreneurship curriculum was designed with attention to items such as appropriate vocabulary and chapter length. The curriculum is replete with local examples and is highly practical. In the spring all county vocational teachers were in-serviced on the curriculum. Their comments, criticisms and corrections were incorporated into the curriculum.

As a result of this project county teachers will receive a teacher's guide, class quantity student guides and transparencies to enable them to easily incorporate entrepreneurship into their vocational programs.

In the process of gathering information for this project, Mr. Metzgar interviewed entrepreneurs from within and from the area surrounding Fulton County. These people will become part of a bank of resource people for use in the teaching of the entrepreneurship curriculum.

The curriculum will be incorporated into all county vocational programs starting fall 1989.

FINANCIAL SUMMARY

Curriculum Utilization
Entrepreneurship
#85-9040

	Federal Budgeted	Federal Expenditures
Instructional Salaries		
25 substitute days @ 60.00 per day (five days for each of five vocational programs to be used in three school districts)	$ 600.00	$ 300.00
Instructional Benefits	-	33.43
Other		
Honoraria for resource people 400 hrs. @ $15./hr.	6,000.00	6,005.00
Instructional materials & supplies	500.00	38.60
Program materials & supplies	800.00	486.64
Communications		
Postage	150.00	150.00
Telephone	125.00	119.78
Travel	852.00	891.91
	$9,027.00	$8,025.36

PROJECT APPROACH/METHODOLOGY

The work of this project was initiated and developed by the project consultant, George F. Metzgar. Mr. Metzgar worked five years as a very successful full time independent Snap-on Tool dealer. In addition to teaching vocational agriculture in various parts of Pennsylvania he has also been a successful part-time farm owner/operator for 28 years. Drawing upon his extensive and varied work background Mr. Metzgar researched all the aspects of entreprenurship likely to be encountered by independent business persons. His research efforts took him to various state university libraries. Dozens of books, periodicals and newspapers were reviewed in preparing the materials for this curriculum guide. These references include:

A. Books

B. Periodicals

C. Newspapers

No formal survey was conducted as part of this curriculum project. Dozens of successful Pennsylvania entrepreneurs were interviewed however. Stories of their success and their sage advice are sprinkled throughout the curriculum which was developed as part of this project.

A draft of this curriculum guide was presented to Fulton County's vocational education teachers in June 1989. They reviewed the guide for quality teachability, appropriateness of vocabulary and reading level and evidence of sex bias and/or stereo typing. Their criticisms/ suggestions were incorporated into the finished product.

PROJECT SUMMARY

The purpose of this project was to synthesize a concise curriculum that is relevant to the problems of selecting and operating a financially successful small business. The project's consultant found that there is a plethora of material on the subject of entrepreneurship. Unfortunately, much of it is inappropriate for vocational high school students in Fulton County. The most ponderous problem encountered in this project was the Herculean task of sifting through those materials to isolate those that could be adapted for use by students. Once the range of topics was narrowed the difficult and critical task of rewriting them in an acceptable form was begun. Special attention was given to reading level, vocabulary, relevant and locally identifiable examples, length of chapters and sex bias and/or sterectyping.

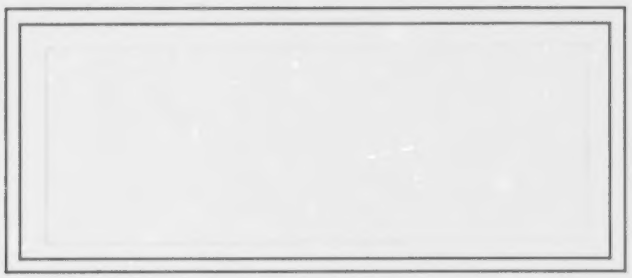
The product of this project is attached. It is a very comprehensive guide to high school study of entreprenurship. Each chapter is self-contained and may be used in any sequence and combination deemed appropriate by the instructor. The consultant suggests that the guide be used in conjunction with current issues of the WALL STREET JOURNAL.

This curriculum guide has been distributed to Fulton County vocational education teachers. After being in-serviced on the curriculum in June it was planned that it would be incorporated into vocational programs during the 1989-90 school year.

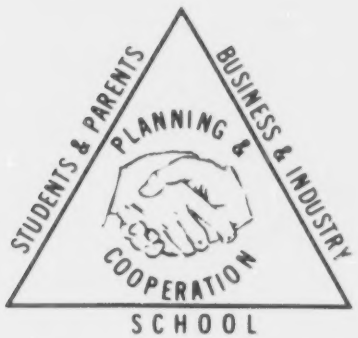
ATTACHMENTS

The Fulton County Schools

A Vocational Partnership



Fulton County Area Vocational Technical School



Central Fulton
School District

Forbes Road
School District

Southern Fulton
School District

ENTREPRENEURSHIP CURRICULUM

Student Manual

developed by:

George Metzgar

for the

Fulton County AVTS

1988-89

FORWARD

Small businesses in America now provide jobs for over 48 percent of the total work force. Two thirds of the NEW jobs are being generated by small privately owned businesses. No wonder ENTREPRENEURSHIP is being taken so seriously; it is no longer a long strange sounding word that few students can spell or pronounce.

This course on ENTREPRENEURSHIP is designed to familiarize Fulton County students with the basics of a small business. Although studying ENTREPRENEURSHIP can't guarantee success, it can help students make mistakes on paper rather than in the business world.

Experience might be the best teacher, but in the business world the test comes first and the costly lesson is learned afterward. Hopefully, these materials on ENTREPRENEURSHIP will help students develop their business dream into a profitable and lasting small business venture.

People may become entrepreneurs for reasons other than money, but unless their business shows a profit, soon they will again work for somebody else.

ENTREPRENURSHIP CURRICLUM

UNIT	TITLE	PAGE
1	Entreprenurship	1
2	Entrepreneurial Motives	2
3	Choosing a Business Location	3
4	Predicting success	4
5	Financing and Sources of Money	5
6	Marketing and Advertising	6
7	Business Ownership Options	7
8	Expanding with Employees	8
9	Product Sales	9
10	Writing a Business Plan	10
11	Record Keeping and Taxes	11
	Glossary	12

UNIT 1

UNIT 1 Entrepreneurship

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Define entrepreneur by dictionary and local meanings.
- Define small business by U.S. Government and local meanings.
- Explain the difference between entrepreneur and entrepreneurship.

ENTREPRENEUR

The ordinary or local definition for entrepreneur in Fulton County, Pennsylvania is: a small business owner. A common dictionary definition is: one who organizes, manages, and assumes the risks of a small business or enterprise.

Some examples of small businesses owned by entrepreneurs in Fulton County include the following: automobile dealership, beauty salon, clothing store, dairy farm, greenhouse, ice cream parlor, florist shop, and sawmill. All over the United States there are entrepreneurs who own small businesses, just as there are in Fulton County, Pennsylvania. In fact, small

businesses are the largest growth area of the national economy at the present time.

Entrepreneur Review

After studying the preceding part of Unit 1, each student will be able to answer the following questions with 100% accuracy:

1. Give the ordinary or local meaning for entrepreneur.

2. State the dictionary meaning for entrepreneur.

SMALL BUSINESSES

What is a small business? According to the Small Business Administration of the U.S. Government, a small business is "any business that employs less than 500 people." In Fulton County, most persons would consider

a company with half that many employees as a large business.

Surveys across America indicate that the majority of people consider a company a small business if it employs no more than 20 people. For the purposes of this study, we will consider businesses with up to 20 employees as a small business.

Small Business Review

After studying the preceding part of Unit 1, each student will be able to answer the following questions with 100% accuracy:

3. Contrast what people in Fulton County consider a small business with what the U.S. Small Business Administration designates as a small business.

4. For the purposes of this study, how many employees can a small business have?

5. What size of business is growing most rapidly at the present time in the United States?

ENTREPRENEURSHIP

If an entrepreneur is a small business owner, then what is an entrepreneurship? The dictionary defines entrepreneurship as "the condition of being an entrepreneur". If that sounds vague or confusing, this study will consider an entrepreneurship to be the actual business operated by the small business owner.

For example, if the entrepreneurship is an automobile dealership, then it is composed of a showroom, a repair shop, a body shop, a parking lot, office space, parts room, and tools or equipment.

The entrepreneurship is mainly a collection of objects and things, whereas the entrepreneur is a person.

Entrepreneurship Review

After studying the preceding part of Unit 1, each student will be able to answer the following questions with 100% accuracy:

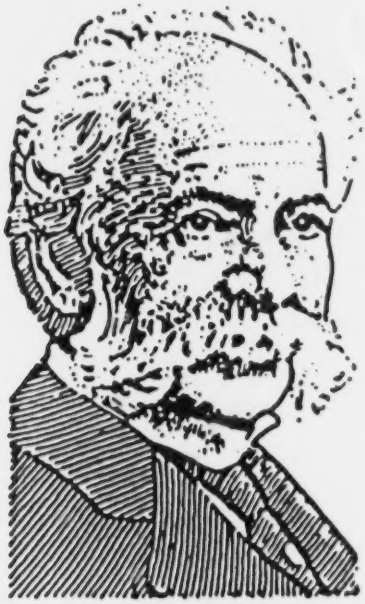
6. How does an entrepreneur differ from an entrepreneurship?

Match the answers for questions 7, 8, and 9.

John Smith owns Central Fulton Motors, an automobile dealership.

___7. Central Fulton Motors	A. Entrepreneur
___8. John Smith	B. Entrepreneurship
___9. Show room and office	C. Part of the Entrepreneurship

ENTREPRENEUR CASE STUDY



Henry John Heinz

Heinz Used 57 Ways to Sell a Pickle

As a youth, Henry John Heinz peddled horseradish door-to-door near Pittsburgh. He found that housewives liked clear glass jars so the contents could be inspected for quality. Soon Heinz had expanded his line to include sauerkraut, pickles, and vinegar. His first business went bankrupt when Heinz bought and processed more pickles than he could sell.

In 1888, Heinz bought total control of a similar business begun by his brother and a cousin. Soon he was processing and selling a wide range of food products. Heinz added spices to his products to make them more appealing. While others in the industry fought the newly passed federal pure Food and Drug Act,

Heinz saw it as a way to promote high quality products. He also built and promoted a model factory on the banks of the Allegheny River.

In an era when sweatshops were the norm, workers who spent the day stuffing pickles in glass jars enjoyed private lockers, a free library, their own swimming pool, and company paid medical care from Heinz. Social reformers from around the world and even a delegation of Japanese businessmen visited the famous Heinz processing plant. The Pennsylvania entrepreneur gained world fame.

Every visitor, including this writer, who visited the Pittsburgh plant got the famous Heinz memento, a charm in the shape of a small green pickle that could be pinned on a blouse or a shirt. Heinz sold pickles with master salesmanship.

The first electric billboard, six stories tall on Fifth Avenue in New York City proclaimed "Heinz 57 - Good Things for the Table". Heinz got his idea for the famous "57 Varieties" from an advertisement that displayed 21 kinds of shoes on a train.

Heinz admitted that his company had more than 57 varieties when "Heinz 57 Varieties" was adopted. The H.J. Heinz product line numbered over a thousand when the slogan was officially dropped in 1969. The secret of the H.J. Heinz success story is to produce a quality product and to promote it with quality salesmanship.

Entrepreneur Case Study Review

After studying the Unit 1 Case Study, each student will be able to answer the following questions with 100% accuracy:

10. Why was H.J. Heinz considered an entrepreneur?

11. Why do we not consider Senator John Heinz as an entrepreneur?

12. List three innovative business practices that H.J. Heinz introduced long before they were standard in industry.

STUDENT LEARNING ACTIVITY

1. Make a list of every entrepreneur that you know who lives within two miles of your home.

2. List the different kinds of businesses that the above entrepreneurs operate.

3. Take a field trip with the entire class to visit a local entrepreneur. Ask questions about the business.

UNIT 1 SUMMARY

An entrepreneur is a small business owner who assumes the risks of business to make a profit. We will consider a business small if it has no more than 20 employees. The entrepreneurship is the actual business composed mainly of objects and things, whereas the entrepreneur is a person.

UNIT 2

UNIT 2 Entrepreneurial Motives

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Define motive by dictionary, local, and legal meanings.
- Explain several entrepreneurial motives.
- Define profit by dictionary and local meanings.

MOTIVE

The ordinary or local definition for motive in Fulton County, Pennsylvania is: the reason. A common dictionary definition is: Something that causes a person to act. From a legal standpoint, motive is: cause or reason that makes the will and induces action.

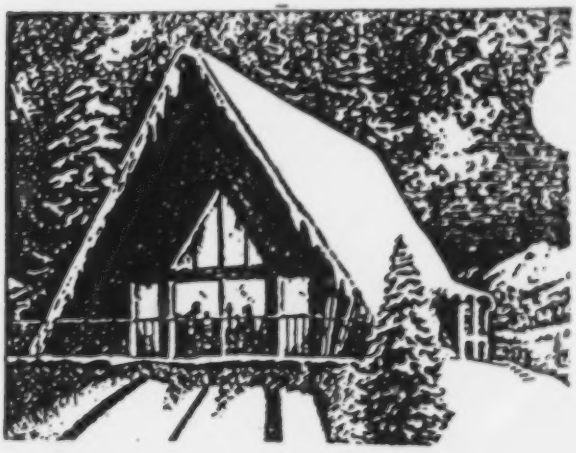
In most people's minds motive is often associated with crime. Investigators try to determine a motive for a crime to narrow the list of suspects for the case. A celebrated example is the December 1988 bombing that destroyed flight 103 over Scotland as it was en route to New York from London. What was the motive for this tragic crime? Was the wrongdoer a person who had insured a passenger on the flight with hopes of collecting a large sum of money? Was the

wrongdoer a disgruntled airline employee? Or was the wrongdoer a terrorist who randomly selected flight 103? By determining the motive, the identity of the person responsible for the bombing could more easily be found.

Motive Review

After studying the preceding part of Unit 2, each student will be able to answer the following questions with 100% accuracy:

1. Give the ordinary or local meaning for motive.
2. Give the dictionary meaning for motive.
3. Give the legal meaning for motive.

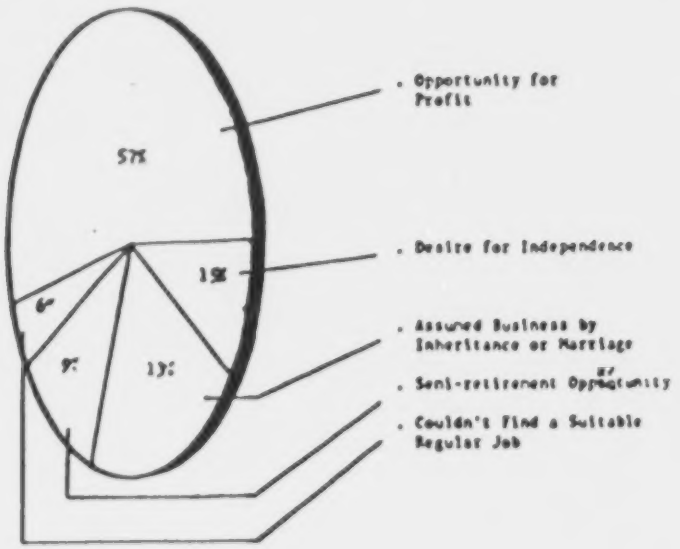


A DOZEN LONG STEM ROSES EVERYDAY ALL WINTER... ALEX, WHAT IS YOUR MOTIVE?

ENTREPRENEURIAL MOTIVES

What are the motives that cause people to operate a small business? A recent survey found the following

reasons given by operators of a wide range of small businesses:



Motives (reasons) for Operating a Small Business

The largest percentage of entrepreneurs listed "opportunities for profits" as their primary motive. This supports the saying that the main reason for a business is to profit. Although the entrepreneurs listed several other reasons on the chart above, it is presumed that everyone was seeking a profit. Obviously, if a person could not find a suitable regular job, it would be necessary that their small business would generate enough profit for them to meet living expenses.

TRADE JOURNAL AND BUSINESS INFORMATION

Every entrepreneur should subscribe to at least one trade journal related to their business. New ideas and new products are described in trade journals with great detail.

Advertisements in trade journals also inform businesses of what is available to make their business more profitable. The one source of information that touches on nearly every business is "The Wall Street Journal," which is available Monday through Friday at most large news stands or by subscription.

Specific trade journals-magazines or newspapers that focus on a narrow band of businesses-are published for almost every business in existence. To locate a specific trade journal consult The Standard Periodical Directory which is available in major libraries. Because it costs nearly $400.00 small libraries and high school libraries usually do not stock it as a reference.

Entrepreneurial Motives Review

After studying the preceding part of Unit 2, each student will be able to answer the following questions with 100% accuracy:

4. What was the largest percentage of entrepreneurs seeking from their business?

5. What is the source book for a complete list of trade journals?

6. Why would some people choose to operate a business that they inherited or gained through marriage rather than seek a job?

7. What advantages might an entrepreneur "on pension" have over other small business owners?

PROFITS

Just what is a profit? In Fulton County, Pennsylvania most people refer to profit as "the gain." The dictionary defines profit as: the excess of returns over expenditures. This doesn't sound too hard to understand. But is it cut and dry? If an auto dealer buys a car from the manufacturer for $10,000. and sells it to the customer for $10,500. one might say that the profit was $500. The five hundred dollars was "gross profit." If "dealer prep" cost is $50. and other costs of operating the dealership ran $100. then we have another figure, $350. or "net profit". Gross profit is: the mere excess of sale price above purchase cost. Net profit is: the gain which remains

after further deduction of all expenses, charges, and other costs.

Another common term is profiteering. The local definition is: excess profits. The dictionary definition is: acquisition of excessive profit, especially on the sale of essential goods during times of emergency. For example, the 11 cents per gallon hike in gasoline prices within two weeks of the Exxon oil spill in Prince William Sound was labeled profiteering by the American Automobile Association. AAA spokesman Jerry Cheske said, "The customers were gouged".

Profits Review

After studying the preceding part of Unit 2, each student will be able to answer the following questions with 100% accuracy:

8. Define profit by dictionary and local meanings.

9. What is gross profit?

10. Why is net profit more accurate than gross profits?

11. Define profiteering by dictionary and local meanings.

PLANNED UNPROFITABLE BUSINESS

Nearly everyone thinks of a planned unprofitable business as a "tax write-off." Recent changes in the Internal Revenue Service rules have greatly restricted this type of business. To better understand a so-called "tax write-off business" consider the following example: Dr. Jones earns $100,000. per year from his medical practice. Since his whole family loves horses, Dr. Jones buys a horse farm to run as a loss. He only places one small advertisement a year in the classified section and lists the fee to ride at his farm for double the local rate. Only three customers ride his horses all year. They each pay $100. for a half day ride, for a total income of $300. Yet it cost him $25,300. to run the farm. As a result, his horse farm lost $25,000. that year. By subtracting the $25,000. from his income of $100,000. Dr. Jones pays income tax on $75,000. instead of $100,000.

Planned Unprofitable Business Review

After studying the preceding part of Unit 2, each student will be able to answer the following questions with 100% accuracy:

12. What is a "tax write-off business?"

13. Why would entrepreneurs purposely operate a business at a loss?

INTERNAL REVENUE SERVICE LAW REGARDING MOTIVE

The current IRS law disallows a loss from any business without a profit motive. Showing a profit in three of the last five years apparently is acceptable as a "presumption of profit". The following nine IRS rules apply:

1. The business records must be kept in a normal manner.
2. The taxpayer must have expertise in the business or hire a person with expertise.
3. A reasonable amount of time must be put into the business.
4. The business assets must be expected to gain in value.
5. The entrepreneur should have success, not failures, in other ventures.
6. Occasional profits can not be extremely small.
7. Past history of losses against another income will be considered.
8. Financial status of the taxpayer will be considered.
9. A business with elements of pleasure or recreation will be carefully checked.

IRS Review

After studying the preceding part of Unit 2, each student will be able to answer the following questions with 100% accuracy:

14. What motive must be present for the IRS to allow a business loss?

15. Why couldn't profits of five dollars a year for two years out five meet the IRS guidelines for a business renting tools?

16. Why would a business renting motor boats and water skis be checked more thoroughly by the IRS than a business renting tools?

STUDENT LEARNING ACTIVITIES

1. Ask a local entrepreneur what motivated him or her to operate a small business rather that to get a job with another employer.

2. Ask a person operating a business as a "tax write-off" to explain the advantage over a business showing a profit.

UNIT 2 SUMMARY

People have many reasons for becoming entrepreneurs, but the profit motive is the biggest factor. Profit (excess of returns over expenditures) can be further designated as "gross profits" and "net profits".

Profiteering is charging an excess profit during critical times on essential goods. Gasoline is considered an example of an "essential good".

The IRS is restricting businesses that do not demonstrate the profit motive thus limiting the so-called "tax write-off businesses."

UNIT 3

3

UNIT 3 Choosing a Business and a Location

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- List three important factors in selecting a business.
- List three businesses that appeal to the student.
- Explain why some types of businesses are more likely to succeed in Fulton County.

FAMILIAR BUSINESSES

Most entrepreneurs are very familiar with the business they select to operate. The successful small business owner is likely to be an expert in the type of business being operated. An expert is a person with a high degree of skill or knowledge in a certain subject. Price being equal, most customers will patronize the business operator with the most expertise.

Example:

Debbie met the requirements to become a licensed cosmetologists by attending a county operated vo-tech school. Following graduation she worked in a beauty salon owned by a department store at a nearby shopping mall. Within two years her abilities had

gained for her the largest number of regular customers of any beautician at the salon.

When Debbie opened her own business in the basement of her house, she already had a solid customer base. How did Debbie gain the expertise that caused most of her "regulars" to follow her to her own business? She gained her experience the same way most entrepreneurs do: through study and through experience.

Familiar Businesses Review

After studying the preceding part of Unit 3, each student will be able to answer the following questions with 100% accuracy:

1. Explain why expertise in the business an entrepreneur operates is helpful.
2. List two ways that entrepreneurs gain expertise.

ENTREPRENER'S "ACE" - KNOWLEDGE & EXPERIENCE

SUITABLE BUSINESSES

Most entrepreneurs select a business to operate that they enjoy running. No business is going to be "pure pleasure" but overall, the type of business should please the owner. Is business success likely if the type of business is not one that the owner really likes?

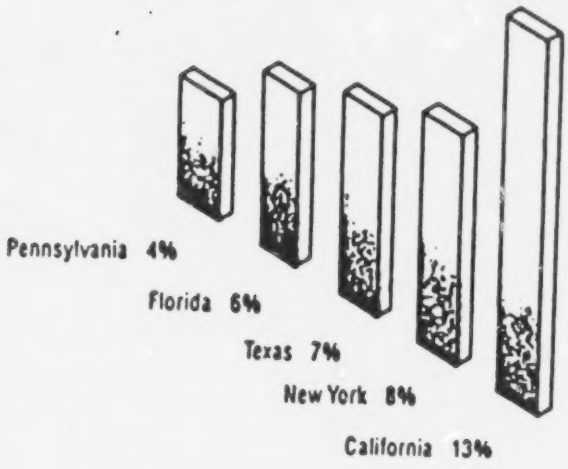
Sometimes a business may have a few things about it that the owner highly dislikes. Some farmers don't like to grind feed. One way to solve that problem is to hire a custom feed grinder. This is what one custom feed grinder said. "I know many farmers hate grinding feed, but I happen to like it. I don't have to worry about the weather, I don't have near the investment they have, I don't work on weekends, yet I make as much money as most of the farmers I serve."

Suitable Businesses Review

After studying the preceding part of Unit 3, each student will be able to answer the following questions with 100% accuracy:

3. What kind of morale would an entrepreneur likely have if the business being operated was one he/she highly disliked? How would this affect the success of the business?

4. List two types of businesses that you would enjoy operating and explain why they appeal to you.



PENNSYLVANIA RANKS FIFTH IN BUSINESS STARTS

BUSINESS LOCATION

The suitable business must be situated where it can reasonably be expected to succeed. It must be able to generate a profit at the location where the entrepreneur is doing business. A person may enjoy running a so-called fast food business, but unless it is located at a busy intersection or along a high traffic business strip, the venture is not likely to be profitable.

Sometimes an entrepreneur with a strong customer base can relocate to a non-business area to lower costs. The beautician mentioned earlier was able to succeed in the basement of a house located on a dairy farm. Had she opened the business without first

establishing a strong following, success may have been impossible. The ideal relocation to a non-business area is one where the owner can reduce operating costs enough to lower the price to the customer while increasing the profit.

Business Location Review

After studying the preceding part of Unit 3, each student will be able to answer the following questions with 100% accuracy:

5. What does an entrepreneur usually need to operate a successful business in an out-of-the-way location?

6. How can a business operated in the basement of one's home charge the customer less, yet return a higher profit to the entrepreneur?

LOCATING BESIDE THE COMPETITION

Competition is the rivalry between two or more businesses serving the same customers or markets. Almost all entrepreneurs wish they had no competition, yet in a free economy it seldom happens. Have you ever noticed how many similar businesses are located side by side? Fast food business one mile east or west of the competition in Breezewood would likely doom the venture to failure.

Locating Beside the Competition Review

7. Explain why the three-legged stool in the diagram below will likely fail if any one leg is missing.

UNIT 3 SUMMARY

Most successful entrepreneurs have expertise in the business that they operate. Many have gained experience in that field from work experience. Overall, the entrepreneur should enjoy operating the business, even if some aspects are not totally pleasing. The location of some businesses will "make or break" it, but others can be located off the beaten track where lower operating costs can be passed on to the customers with more competitive prices.

CASE STUDY

A Fulton County company with annual sales of $1.7 million is the largest maker of soft sculptured gifts and decorations under one roof in the U.S.A.-not bad for a company begun in the basement of a house.

Helen Overly is president of Overly-Raker. Before becoming an entrepreneur, she taught math and science in New Jersey. Freda Raker was an executive secretary for DuPont before joining forces with Overly.

Overly-Raker's soft sculpture items include dolls, gifts, and crafts made with fabric and stuffed with cotton.

The company began in 1973 with two employees. In 1979, they purchased a building north of McConnellsburg and employment increased to about 40 home workers. By 1984 sales volume exceeded $1 million. Helen Overly and Freda Raker are entrepreneurs who attained the "American Dream-a business of their own.

STUDENT LEARNING ACTIVITY

1. Visit a Fulton County entrepreneur located on a busy street or highway and ask the owner if they feel their good location is a big factor in the success of the business.

2. Visit a Fulton County business located in an out of the way location and ask the owner what factors have led to his/her success in the remote location.

UNIT 4

4

UNIT 4 Predicting Success

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Use a mathematical formula to predict business success.
- Explain common causes of business failures.
- Understand how all businesses provide goods, services, or both.

GOODS AND SERVICES

All businesses provide their customers with goods, services, or a combination of both. Goods are commodities or the tangible items bought and sold by businesses. Fulton County residents refer to goods as "the stuff you buy from merchants". The dictionary defines goods as "something having economic utility or satisfying an economic want; personal property." Do not confuse goods with real property which is land including the permanent structures. Some examples of goods are: automobiles, butter, clothing, dentures,

eggs, flowers, etc. An example of a business that provides mainly goods is grocery store.

Some businesses provide mostly services. Ask local people in Fulton County what a service is and they will likely say "to fix or maintain something." The dictionary defines service as: to repair or provide maintenance for. An example of a business that provides mainly a service is a window washing company.

In reality, most businesses provide both goods and services. For example, a clothing store sells a pair of slacks, which is a good. However, when they alter them to fit the customer, they are providing a service, too.

Goods and Services Review

After studying the preceding part of Unit 4, each student will be able to answer the following questions with 100% accuracy:

1. Define goods.
2. Define services.
3. Explain why most businesses provide both goods and services.
4. Name an entrepreneur in Fulton County who provides mainly a service.

5. Name an entrepreneur in Fulton County who provides mainly goods.

6. Name an entrepreneur in Fulton County who provides both goods and services.

SUCCESS FORMULA

No formula can predict small business success with 100% accuracy. However, there is a formula that will help predict whether that "great idea" the aspiring entrepreneur has come up with is really promising. About 50% of the new business ventures fold up within five years. The formula, to be of help, must have the information provided on an honest and realistic basis. For example, if a bodyman is toying with the idea of his own bodyshop, to plug in above average for paint finish will render the formula useless if in reality the person is a poor painter.

It would be nice to make a prediction of success without risking either capital (money) or time (business operating duration). Since there is competition in Fulton County and the entire United States, your venture will compete with others in value and price. The success formula tries to predict success in business ventures.

$$\frac{\text{Value}}{\text{Price}} = X \text{ (This will be a number.)}$$

Unless "X" is at least 2, most new business ventures will not succeed. To understand how the success formula works, let's look at an example.

John wants to open his own body shop in Fulton County. If the VALUE (quality) of his body work is the same as the local competition, assign it a value of 1. If the PRICE (cost to customers) is again going to be the same as John's competitors, assign it a value of 1 also.

$$\frac{1}{1} = 1$$

Since the value of "X" in the example is less than 2, the chances of success for John's Body Shop are not good. (Why would customers want to switch from their usual place of business and patronize John? He is not offering better quality body work nor is he offering a lower price.)

The above example shows a new business venture that is not predicted on paper to be successful. Now let us look at a second example that does predict success.

Joe has a hog farm in Fulton County and considers sweet corn to be one of the joys of summer. However, Joe has never grown sweet corn on his farm, but is dissatisfied with the local sweet corn he has been buying. The corn he buys was picked the evening before, the husks are light green, and the kernels aren't filled out to the point. Besides, his wife doesn't like to cut out the messy earworms in about half the ears.

Here is how Joe is going to correct the above situation when he starts raising sweet corn for the fresh market. Joe is never going to offer corn for sale unless it was picked the same day. (He will feed left over unsold corn to his hogs.) By applying more nitrogen in the form of hog manure, Joe knows his sweet corn will have dark green attractive husks. The kernels will be filled out to the point because he will irrigate. There will be no earworms present since his spray program will control the pests. Joe plans to sell his sweet corn for the same price as his competitors. Check Joe's chances as predicted by the success formula.

Since Joe's sweet corn will be three times nicer than his competition we will assign a value of 3 and since his price will be the same, it will get a 1.

$$\frac{\text{VALUE}}{\text{PRICE}} = X \qquad \frac{3}{1} = 3$$

The success formula is predicting Joe's sweet corn venture to be a success. (Why wouldn't people give Joe their business? He charges the same as others in Fulton County but delivers much better value.)

Joe has always been a profit minded entrepreneur. During the off-season he has been thinking of squeezing higher profits out of his business. Would people pay more for his corn because it is always so nice? Joe would like to clear 30 cents more per dozen. Last year he got $1.50 per dozen. One dollar and fifty cents multiplied by 1.2 = $1.80 and would give Joe his 30 cents extra profit per dozen. Before raising prices, Joe plugs in the increase in the success formula to see if the "traffic will bear" the price increase.

$$\frac{3}{1.2} = 2.5$$

Since "X" is still above 2, Joe goes ahead with the price increase and true to his prediction, people still buy his corn instead of his competitors and at the same time Joe makes a higher profit. Joe correctly concludes that one should "charge what the traffic will bear" and maximize profits. There is absolutely no reason to match the competitor's price if one's product is better.

Now that you know how to use a formula to predict success, answer the questions on the personality test that follows. Some great business ideas fail because the entrepreneur did not have the personality traits for success.

Personality Test For Entrepreneurs

While the success formula can help to predict whether an idea or proposed business is sound from a business standpoint, the personality of the would-be entrepreneur is also very important to the success of any venture. Answer the following questions as accurately as possible. Without honesty, this personality test is of no value. So be honest when you answer these questions, since no one else will see them.

Score Yourself:
1 - Very far below average
2 - Not far below average
3 - About average
4 - Slightly above average
5 - Very far above average

1. ___ I enjoy talking to anyone, even total strangers.

2. ___ I can usually get people under me to work efficiently without too much difficulty.

3. ___ I usually have my papers, tools or equipment organized and ready to be used.

4. ___ I don't walk away from responsibility; the buck stops with me!

5. ___ If one of my ideas does not "put out", I'm willing to change the approach to the problem.

6. ___ I enjoy considering all aspects of a problem and arriving at a solution that I can justify.

7. ___ I look forward to beginning a new week on Monday mornings and quite often I want to do "just a few more things" before quitting in the evenings.

8. ___ I don't have any health problems and have the energy to work 10 to 12 hours a day for several weeks or months at a time.

9. ___ I can usually smooth things out when people come to me upset about their problems.

10. ___ I like to get started on a project as soon as possible.

11. ___ I usually have a genuine interest in people and their business or concerns.

12. ___ I am often consulted by friends for general advice.

13. ___ I've always felt "there's more than one way to skin a cat" and the most cost effective way likely is the best.

14. ___ I like to organize my work on paper, even if it is no more than a diagram on a scrap of paper.

15. ___ I like to get projects completed within a reasonable time frame.

16. ___ I can usually get things done while others are still thinking them over.

17. ___ I view myself as "a winner".

18. ___ I usually have no problem getting started on the everyday work at hand.

19. ___ I'm willing to "hear out" the complaints of others.

20. ___ I am willing to take a calculated chance on a business idea if, on paper, there is a reasonable chance for success.

Scoring Key

50 or Lower:	You should probably work for someone else.
51 to 70:	You will have to change some to be successful.
71 to 85:	You possess many of the traits of entrepreneurs.
86 or More:	You will likely succeed in business, if your answers were honest.

Success Formula Review

After studying the preceding part of Unit 4, each student will be able to answer the following questions with 100% accuracy:

7. What percentage of business ventures in the United States fail before they have reached the five year mark?

8. What does the Success Formula attempt to predict?

9. To predict business venture success, what value must "X" equal or exceed?

STUDENT LEARNING ACTIVITIES

1. Visit a Fulton County house or barn painter and ask them how they keep the value of their paint jobs higher than their competitors.

2. Ask the same painter how they would try to gain business during a slow season.

3. Read the Ray Kroc newspaper article below

AMERICAN ENTREPRENEURS

McDonald's Kroc Bloomed Late but Brilliantly

In a centennial year series, The Wall Street Journal is profiling entrepreneurs who have made noteworthy contributions to American business over the past 100 years.

Take heart, you aging baby boomers who still dream of striking it rich. Ray Kroc, who built McDonald's Corp. from a handful of hamburger stands into the world's largest food chain, didn't sell his first hamburger until age 52.

What had Kroc been doing until then? He'd played jazz piano, sold real estate in Florida and spent 25 years as a restaurant supply salesman. His line was paper cups, and later old-fashioned commercial milkshake machines, the kind that make five shakes at a time.

Ray Kroc

The milkshake machine business was slow in the mid 1950s – franchised soft ice cream outlets like Dairy Queen with their own style of milkshakes had become popular – but Kroc perked up when a small hamburger stand in San Bernardino, Calif., ordered 10 of his machines.

Kroc paid a visit and was amazed at what he found. The tiny drive-in, run by brothers Dick and Mac McDonald, was a fast food mecca. Customers lined up 20 deep at the take-out windows to buy 15-cent hamburgers, which were cranked out in assembly-line fashion in a spotlessly clean kitchen. Nearby stood a distinctive sign, a pair of gold-colored arches.

After years of selling to restaurants, Kroc understood the food business. He also sensed that the McDonald brothers, who were making a good living but weren't expansion-minded, had a great idea.

In 1955, he bought the franchise rights. (Desperate for money, he offered several potential investors half the stock in his company for $25,000. Today, that stake would be worth more than $5 billion.) Seven years later and still strapped for cash, he bought the entire company for $2.7 million, financing the deal at exorbitant interest rates that brought the total purchase price to $14 million.

Kroc's intense personality and his vision of a national fast food chain dominated McDonald's from Day One. He was short-tempered, politically conservative, tireless and perpetually optimistic. An extraordinary motivator, Kroc fired up his troops with maxims that adorn company bulletin boards to this day. "Free enterprise will work if you will," was a favorite.

He was a fanatic for cleanliness, once saying that Harvard graduates wouldn't make good McDonald's owners because they wouldn't get down on their hands and knees and scrub the toilets. "If you've got time to lean, you've got time to clean," Kroc said.

Kroc built the company through franchises, but steered clear of the fast buck tactics that often make franchise organizers rich and leave operators broke. For example, there were no exclusive territories. A McDonald's franchisee got one restaurant. If he performed to Kroc's demanding guidelines, he might get a second outlet.

To satisfy the chairman's passion for uniformity, McDonald's owner-operators had to buy meat, potatoes, cooking oil and other products from common suppliers. But Kroc kept costs low, spurning the common franchiser practice of taking a markup on supplies. If individual restaurants made money, everybody would do well, he believed. As it was, suppliers and restaurant operators got rich before Kroc. It wasn't until McDonald's became heavily committed in real estate that the parent company's fortunes soared.

The boss had his weak points. His menu suggestions consistently flopped. One lame Kroc idea: the Hulaburger – a slice of grilled pineapple and two pieces of cheese in a bun. All time favorites like the Big Mac and the Egg McMuffin were proposed by franchisees. Arguments that McDonald's earned its profits on the backs of cheap teen-age labor also sent Kroc up the wall.

Ray Kroc died in 1981 at age 84, presiding over the world's largest food service company. "The world is full of educated derelicts," he liked to say. "Persistence and determination alone are omnipotent."

—EUGENE CARLSON

BEST COPY AVAILABLE

CASE STUDY

In high school Melissa Thomas sold cookies shaped like Peanut Characters during the intermission of "You're a Good Man, Charlie Brown". The cookies sold so well that the intermission had to be extended.

When Melissa Thomas entered college as a marketing major, she prepared to fulfill her dream: to provide cookies for Walt Disney. Today, Melissa is providing Disney with the likenesses of Bambi, Cinderella, and other Disney Characters. So far her new process of adding food coloring by a process similar to silk screening has enabled her to sell over 100,000 cookies.

A new idea, presented by a newcomer to the business world has made Melissa Thomas, at 21, the youngest licensee for Disney.

UNIT 4 SUMMARY

All businesses supply their customers with either goods or services and usually both. Goods are tangible items that one can see whereas services are repairing or maintaining something. A spark plug is a good, but the mechanic installing it is providing a service.

The Success Formula:

$$\frac{\text{VALUE}}{\text{PRICE}} = X$$

"X" must equal 2 or more to predict the venture to be successful. The VALUE is the good or service to be provided to the customer and is assigned a "1" if it is the same as the competitors' offer. Assign VALUE a higher number if the good or service exceeds the competition. Assign PRICE "1" if it will be the same as the competition. Sometimes if VALUE is high an entrepreneur can actually charge more than the competitors and still be successful. If VALUE is higher and the PRICE is lower, the business volume is likely to soar, as in the case of Ray Kroc with his McDonald's Franchises.

UNIT 5

UNIT 5 Financing and Sources of Money

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- o Define capital outlay
- o Define return on investment.
- o Explain long run profitability.
- o List several sources of capital.

CAPITAL OUTLAY

The Fulton County definition of capital is: Money. Capital outlay is "the money expended in acquiring, equipping, and promoting an enterprise." Capital outlay is money spent on the business. For a gasoline station the capital outlay would be for the land, the building, the storage tanks, the gasoline pumps, and the tools and equipment if repairs are going to be done.

Capital Outlay Review

After studying the preceding part of Unit 5, each student will be able to answer the following questions with 100% accuracy:

1. What is capital?
2. What is capital outlay?

RETURN ON INVESTMENT

Return on investment is calculated by dividing the profit by the total amount of money invested in the business. For example, if a welding shop had a total investment of $40,000. and showed a profit of $9,000. for the year the percent profit would be:

$$\frac{\$9,000.}{\$40,000.} = 22.5\%$$ which doesn't seem too bad.

However, remember that if you had $40,000. invested in a CD (certificate of deposit) at a bank, it would yield $3,600. at 9% interest without ever doing any work. To see the true picture, one should always subtract the amount of interest the investment could earn at the bank out of the profit.

Some people refer to investment as overhead. The business with the least overhead will generate the higher return on investment, all other things being equal. Certain types of businesses have less overhead than others. Perhaps a business with low overhead (low investment) is the type of business to get started with because the capital outlay is small.

Return on Investment Review

After studying the preceding part of Unit 5, each student will be able to answer the following questions with 100% accuracy:

3. How much return on an investment would Joe make if he had a capital outlay of $60,000. and had a profit of $12,000.?

4. How much money would Joe have earned had he put the $60,000. in a bank CD at 9.2%?

5. What is another name for investment?

BUSINESS TYPES AND CAPITAL OUTLAY

In Unit 4 goods and services were discussed. Certain types of businesses require less capital outlay and therefore they are attractive businesses to enter. An example will be used to describe how goods and services relate to capital outlay.

Example:

Ever since Bob was a small boy on his father's farm he was intrigued by hay balers. Bob decided his career would be in some phase of balers. As an entrepreneur involved with balers, Bob's choices are:

1. Design and manufacture his own balers.
2. Service balers manufactured and sold by others.
3. Own a baler dealership; sell and service balers.

Entrepreneurs involved with durable goods (consumer goods such as balers that are typically used repeatedly over a period of years) will fit the capital outlay pattern used to explain Bob's options from the above example.

Mobile Technician

Usually the least expensive form of business to enter is the mobile repair field. A mobile repair technician services equipment at the owners' locations. This reduces overhead since the only costs are tools, service manuals, advertising, and a vehicle. But since nearly everyone already owns a vehicle, this reduces capital outlay to tools, advertising, service manuals, and travel expenses.

Shop Repair Facility

If the mobile repair technician decides to add a repair facility or shop, all the capital outlay costs of the initial business are retained and the costs of a building are added. These include rent or payments, maintenance, insurance, heat, light, and other utilities.

Dealer Sales and Services

An even greater investment is needed to become a dealer. Since dealers generally sell and service equipment, all the expenses of the above two types of businesses are retained. Additional investment is needed to expand to a larger building to house inventory. Inventory is a list of goods on hand at a

business. The owner will also have capital outlay for the inventory.

Durable Goods Manufacturer

Usually the most expensive form of entrepreneurial pursuit is the design and manufacture of durable goods. This requires an engineering department, a test facility, a manufacturing plant, and a distribution system. Since most durable goods are manufactured on an assembly line, hiring employees is also a near certainty. This now means facing a payroll, even if the equipment being manufactured is for seasonal use, such a balers. Manufacturing durable goods is generally a major entrepreneurial venture.

Business Types and Capital Outlay Review

6. What type of service business can one often set up with a very minimal amount of money?

7. Why does owning a repair shop usually require more capital outlay than owning a mobile repair service?

8. How can an entrepreneur's inventory best be explained?

9. Why does the manufacture of a product usually require vast sums of money?

LONG RUN PROFITABILITY

Warning! Many businesses will not begin to show a profit for several years. Long run profitability is how much profit the business will produce once it is established and stabilized. The problem facing entrepreneurs is that one must have living expenses every month and often the business will close because the owner cannot afford to spend even one year without an income from his or her venture.

Long Run Profitability Review

After studying the preceding part of Unit 5, each student will be able to answer the following questions with 100% accuracy:

10. Define long run profitability.

11. Explain why some businesses go bankrupt during the first few years when similar businesses generally do not show a profit.

SOURCES OF CAPITAL

ENTREPRENEUR'S FRUSTRATION - FINDING MONEY..

Someone once said, "It takes money to make money!" Just about any entrepreneur will agree. Listed below are some common sources of capital (money) and a few comments about each:

A. Savings. Some people refer to this as a self capitalized business or an internally funded venture. This is probably the most conservative approach and has been the foundation of many successful small businesses.

B. Money invested by partner(s). Sometimes friends hook up to form a partnership and both or all partners fund the venture without going to outside lenders. This is again a very conservative approach, and one that has already worked for many business persons.

C. Money borrowed from relatives or friends. Don't ever think that the average friend or relative will not get upset if you are unable to repay them fully and on the time schedule promised.

D. Money borrowed from banks or other lending institutions. Most banks require collateral in the form of a mortgage or lien on property. If one has already paid off the house they live in, the bank will be more willing to loan money. If the money is not repaid, the bank can always sell your house to settle the debt.

E. Money borrowed from the cash value of life insurance. Some insurance sales representatives tell customers about this as a way to get life insurance sold. In reality, most average Americans will not be able to borrow much money from insurance companies.

F. Money borrowed from governmental agencies. Sometimes the U.S. Government will loan money at reduced interest if one agrees to locate in a depressed economic area, hire minorities or put in place a program to hire and train long-term unemployed persons. If a person hasn't been able to find any work for several years do you want to try to get them to go to work every day?

G. Money borrowed from equipment suppliers. Contractors routinely borrow money from the manufacturers who have a line of credit, but each person must qualify and if the prospective borrower has ever "stuck" a lender, this option will not be available.

H. Venture Capitalists. Some persons with more money than they need are willing to loan it out to promising entrepreneurs but since the venture may fail, often the venture capitalist wants a higher interest rate than the bank or a percentage of the business.

Sources of Capital Review

After studying the preceding part of Unit 5, each student will be able to answer the following questions with 100% accuracy:

12. Why are friendships often lost over borrowed money?

13. What do most banks want as security for a loan?

14. Why is it very important to keep a good credit rating with all lending institutions?

STUDENT LEARNING ACTIVITIES

1. Invite a loan officer from a local bank to visit your class. Ask him/her how loans for small businesses are approved or rejected.

2. Ask any entrepreneur in Fulton County what they would do with their small business if additional capital were available.

Unit 5 SUMMARY

Capital outlay is the money spent to buy, equip, and advertise a business. One of the key factors in any business is return on investment. Divide the profit by the total capital outlay to obtain the return on investment. Some entrepreneurial ventures require very little capital outlay while others need vast amounts. Often a repair service involves a small investment and a manufacturing facility demands a large capital outlay. Other forms of business fall between these in the amount of cash needed for operation.

The ultimate goal of most entrepreneurs is long-run profitability, or what kind of profit the business will generate once it is established and is operating the way it was planned. One to five years may pass before some ventures show a profit, and some businesses operate at a loss for more than five years.

There are many sources of capital available. The easiest way to fund a business is from savings. Check out all available sources. If many sources are combined some refer to this situation as "creative financing". However, the "day of reckoning" eventually arrives. When an entrepreneur cannot repay borrowed money, someone else will usually end up owning the business.

UNIT 6

UNIT 6 Marketing and Advertising

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Define marketing.
- Define advertising.
- Explain four elements of marketing.
- Understand the difference between low-key advertising and major promotions

MARKETING GOODS AND SERVICES

The local Fulton County definition of marketing is "selling anything". A common dictionary definition is: the commercial functions involved in transferring goods and service from businesses to consumers. Some companies have specialists with college degrees in marketing to head up their sales. As an entrepreneur, it is probable that marketing will be one more aspect of the business that you will have to do well before you can show a profit.

If you think that the large company has an unfair advantage, remember that they must also pay that marketing specialist wages and benefits. You are not faced with that operational cost.

Marketing Goods and Services Review

After studying the preceding part of Unit 5, each student will be able to answer the following questions with 100% accuracy:

1. What does the term marketing mean?
2. What advantage does a large corporation have that can afford to retain a marketing specialist on their payroll?
3. What advantage does an entrepreneur have who does all their own marketing?

FOUR P'S OF MARKETING

Marketing has four basic parts often referred to as the "four P's of marketing". They are Product, Price, Promotion, and Provide.

The PRODUCT is the good or service that you sell. The product should be well regarded because people are well informed. Look at the goods carried by the most successful long term merchants in Fulton County. The merchant's reputation is based on the goods that he/she sells and the service provided for those goods. If a person in Fulton County buys a chain saw, they will want it to perform as advertised, have a reasonably long life, and be worth something when it comes time to trade. Fulton Countians pride themselves on being practical. Buying products that are very serviceable is a common consumer requirement.

If the product is service, the job better be right or the entrepreneur providing that service will not be in business very long. Suppose that the service provided was sharpening chain saws. If the entrepreneur providing that service did not return a chain to the customer that would cut like new and retain its edge as long as a new chain, word of mouth would soon force the business to close for lack of customers.

The PRICE charged for the goods or service must be competitive. Most products carry a manufacturer's suggested list price. Successful entrepreneurs often sell below that price, but seldom exceed it. Service work should follow the "flat rate manual", if one exists for the product. If service work is over priced, soon the service department will be losing business. Any time a repair job is going to cost the customer more than the "flat rate manual" price, the owner should be contacted to explain why the price may go higher than expected. The customer then has the option to stop the work or authorize the higher price caused by concealed damage or other factors.

Here's what a local farmer said: "I used to always get my old dealer to come out each spring to go over the knotters on my baler. It always cost about

forty or fifty bucks for them to do the work. When a new dealer bought them out, I called for the same service. When I got the bill it was over two hundred dollars. I paid it, but I hope they took a good look at me, cause they're never going to see me again. Never. I will buy a different make when I have any trouble with my old baler."

The entrepreneur should PROMOTE his/her products on a continual basis. A shirt or blouse with the company name or logo is a good way to start. In the winter, a coat with the same information is also good. The phone should always be answered, "Good morning, Judy's Boutique", or "Good afternoon, Joe's Sawmill". Even if the phone is the personal phone in the home, your friends will not care and it will help promote your business.

PROVIDE the customers with goods and services. Generally, the more volume, the more money the business will earn. How does one increase business volume? Usually the extra business must be actively sought. Make it convenient for the customers to do business with you. If you repair TVs, go to the home so the customer doesn't have to lug the heavy units into your shop. Any sets that are too complicated to repair in the home, take to the shop and then offer to deliver

them free. Of course, a small delivery fee will have already been built into the repair bill. If the customer insists on picking up their own set, make them happy when they pay the bill by knocking off the amount normally charged for delivery.

Another way to get more business is to advertise in state or regional journals, ship UPS or deliver large orders yourself. Unless the goods or service you provide are rather unique, national advertising likely won't pay off. The cost of shipping will render your business uncompetitive in price with what the customers can buy locally but your business will still have spent money on advertising that did not pay off. The rule of thumb is to expand the advertising slowly and stop when the extra business no longer covers the cost of advertising.

Sales Growth: Credit Design or the Market?

DOES PACKAGING make a difference? A year ago, BASF Corp. brought out a new package and a new carton for Zerex, an antifreeze. Designed by Gerstman+Meyers Inc. of New York, the new logotype says ZEREX instead of ZeReX. The label has red and blue color strips above and below the logo to reinforce the caption: "For Extreme Conditions." The new bottle has a see-through strip with level indicators in one-quart increments.

Zerex brand manager Niall McStay says sales have doubled over the past year, vaulting Zerex into second place, behind Prestone. The new packaging has played "a major role" both in boosting sales and in getting Zerex into new retail outlets, says Mr. McStay.

But R.J. Bowen, vice president and director of marketing at First Brands Corp., maker of Prestone,

Zerex, Old Design and New

says Zerex and other brand-name antifreeze did well over the past year not because of new labels but because a shortage of ethylene glycol drove makers of private-label antifreeze out of the market.

Steve Warrenfeltz, senior VP with Old World Automative Products, Inc., agrees. Sales of his company's Peak antifreeze doubled last year because of the demise of the private labels, says Mr. Warrenfeltz, who also derides the new Zerex container as looking "like a detergent bottle—very soapish."

After studying the preceding part of Unit 6, each student will be able to answer the following questions with 100% accuracy:

4. What is the product that entrepreneurs market?

5. How does price affect the business volume and the overall profits?

6. List three ways to promote a business without placing advertisements.

7. List two extra services that an entrepreneur can provide that many small businesses do not offer.

ADVERTISING

Advertising is "the action of calling something to the attention of the public, especially by paid announcements". Most people think advertising is as simple as taking out an ad in some local newspaper. But in reality, advertising is much more. Advertising should be done in steps. All advertising should make money for the business. If an ad costs more than the profit from the extra business that it generated, then that ad should be stopped. Remember, the persons or businesses that sell advertising will want you to continue regardless of how the ad is doing for you. You must have some way to evaluate special ads, such as coupons to be returned by a certain date or a special discount to the customers who tell where they heard about the product or service, otherwise you will never be able to know if an ad was worth running.

Many small businesses overlook some advertising opportunities. Local newspaper advertising is very effective. Set up a program of "low key ads". These may be nothing more than your business name and phone number with a slogan such as "All your _____ needs." This makes your "special promotions" perform better. Special promotions call attention to seasonal items or whatever you want to discount to get more traffic into your business.

A. Business Signs. Avoid homemade, poor quality signs. A good sign at your business should be the first form of advertisement. If zoning restricts signs, get a professional sign person to paint a sign on a truck, then park the truck by the business.

B. Yellow Pages. Some people try to keep cost down by having only a residential phone listing. New business will come to you if it is listed in the Yellow Pages. Make sure you list the business under the category where most people will look for your type of business.

C. Local Weekly Newspapers and Shopper's Guides. These are usually low cost and cover only the area that may patronize your business.

D. Local Daily and Sunday Newspapers. These may cost a little bit more, but again they direct your ad at local people.

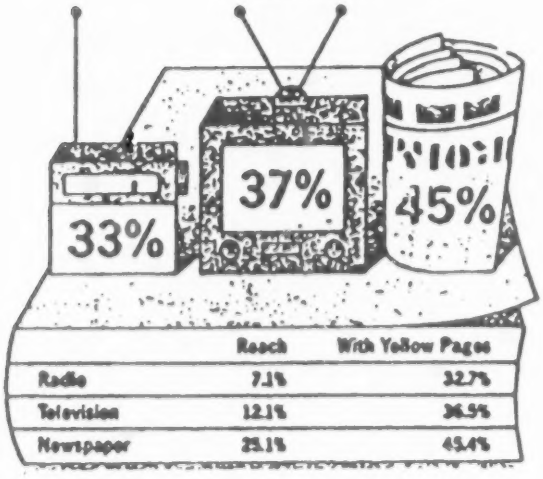
E. Local Radio and TV. These ads are also directed to people you can serve, but for some forms of business, TV covers too large an area.

F. Trade Journals. If you sell a product to farmers, the Pennsylvania Farmer may be cost effective, but remember, most farmers do the

bulk of their buying in the county where they live or think of as "home".

G. Free Hats. People like to get free hats, but stop and think. When was the last time you bought an item because you saw it advertised on a hat worn by a person you saw? It is much better to say, "Buy a new gun today and I'll give you a hat". Passing out hats to everyone will make you go broke!

Yellow Pages advertising strengthens the impact of other types of advertising, according to an independent study. When a newspaper ad is supported by an ad in the Yellow Pages, customer recognition of the ads improve from 25% to 45%; TV, from 12% to 37%; radio, from 7% to 33%. *Source: Yellow Pages Publishers Association*



	Reach	With Yellow Pages
Radio	7.1%	32.7%
Television	12.1%	36.5%
Newspaper	25.1%	45.4%

Advertising Review

After studying the preceding parts of Unit 6, each student will be able to answer the following questions with 100% accuracy:

8. Why should a business sign look "professional" in quality?

9. How can one "beat" restrictive zoning rules against certain signs?

10. Why would an ad placed in Newsweek surely lose money for a tow truck service in Fulton County?

11. Explain how "free hats" can be given out without causing the business to lose money on that advertisement.

STUDENT LEARNING ACTIVITIES

1. Visit three local businesses that have signs and judge their quality.

2. Look in the local Yellow Pages for some businesses in Fulton County that you patronize. Are their ads under the heading where you thought they would be located?

3. List two purchases for over $100 that were made by your family in the last six months. What caused your family to patronize that business?

Unit 6 SUMMARY

Marketing and advertising are closely related. Marketing is the activities involved with selling products to consumers. Advertising is the action of attracting public attention to those products. Marketing has four P's: Product, Price, Promote, and Provide.

Advertising is using various media to call attention to your product. The limiting factor in advertising is the cost. Start with basic advertising and stop advertising as soon as any ad fails to increase your business.

Watch out for customers wanting free hats and other "give away" items. If these things are such a good deal, let the company that supplies you with your product give you the hats and other free items and you pass them out. Don't let your ego make you lose advertising money by spending a big sum on freebies!

UNIT 7

7

UNIT 7 Business Ownership Options

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Understand a sole proprietorship.
- Understand a partnership.
- Understand a corporation.
- Understand a franchise.

SOLE PROPRIETORSHIP

A sole proprietorship is: a business owned by one person and operated for their profit. The term "sole proprietorship" means the same as "single proprietorship" or "sole ownership".

In the United States, the sole proprietorship is the most common form of business. Likely, this is because no other form of business organization permits one person to own 100 percent of the profits earned by the business.

Usually there is no "red tape" involved with forming a sole proprietorship. A person can be a school student in May and a sole proprietor landscaper during the summer months. If the above landscaper

needed to have credit extended to buy landscaping equipment, non-business assets such a private vehicle can be used for collateral. Collateral is : property (as securities) pledged by a borrower to protect the interests of the lender. This gives the sole proprietor a higher credit ceiling than businesses using only business assets for collateral.

It is equally easy to dissolve a sole proprietorship. There aren't any legal procedures to dissolve a sole proprietorship in the United States. For example, a painting contractor who has completed a large painting project decides it would be better to accept a job offer as a cement finisher. If the painter has paid for all the labor and materials used as a painting contractor, the decision to go out of business is all that is needed to disband the painting business as a sole proprietor.

The major disadvantage to the sole proprietorship is that creditors (persons to whom the sole proprietor owes money) may collect amounts owed them from non-business assets (like your home or car) owned by the sole proprietor. Another disadvantage to a sole proprietorship is that bankruptcy, death, imprisonment, insanity, or physical incapacitation of the owner will force the sole proprietor to cease operation of the

business. Often the spouse of the sole proprietor lacks the knowledge or ability to contirue a successful operation.

Sole Proprietorship Review

After studying the preceding parts of Unit 7, each student will be able to answer the following questions with 100% accuracy:

1. What is a sole proprietorship?
2. Why is the sole proprietorship the most popular form of business?
3. Discuss two disadvantages to operating a sole proprietorship.

PARTNERSHIPS

Pennsylvania adopted the Uniform Partnership Act which defines a partnership as "an association of two or more persons to carry on as co-owners a business for profit". Each partner usually contributes equipment, expertise, labor, money, or tools. The partners share in the profits or losses according to an agreed upon ratio. Partnerships are the least popular form of business ownership, outranked by both sole proprietorships and corporations. If both partners are active, business can continue during a death in the family or when one partner is on vacation.

Major disadvantages to a partnership are that when the business becomes bankrupt, all partners share in the financial obligation and any partner can commit the partnership by their decision. Thus, a serious mistake by one partner can affect all partners.

Partnership Review

After studying the preceding part of Unit 7, each student will be able to answer the following questions with 100% accuracy:

4. What is the Uniform Partnership Act definition of a partnership.

5. How can one partner legally have a larger part of the profits?

6. Discuss two disadvantages to a partnership.

CORPORATIONS

The United States Supreme Court defines a corporation as "an artificial being which may legally own property, transact business, enter into contracts, sue and be sued, and engage in other business activities." Individual states issue charters creating corporations.

Legal assistance must be used to make application for a corporation charter. A chartered corporation must pay all operating costs before distributing profits to the owners of the corporation (the

stockholders) in the form of dividends. Some corporations never pay a dividend. All profits are reinvested for the growth of the company. Stockholders in such companies depend on the value of the stock going up to justify their investment.

The top authority in a corporation rests with the stockholders who elect a board of directors to handle the management. The federal government taxes the corporation profit before any profit in the form of a dividend is issued (paid) to the stockholders.

The advantage of a corporation is that it limits liability to the stockholders. Personal assets of a stockholder usually cannot be sold to settle the debts of a bankrupt corporation.

Corporation Review

After studying the preceding part of Unit 7, each student will be able to answer the following questions with 100% accuracy:

7. Define corporation.

8. List a major advantage of a corporation.

9. Why is the formation of a corporation more difficult than that of a sole proprietorship?

10. Why would an investor put money in a corporation that never pays a dividend?

FRANCHISES

A franchise is "the license granted to an individual or group to market a company's goods or services in an exclusive territory". Commonly, the actual business is called a franchise. There are more than a half million franchises in the United States. Each year they account for about $600 billion in sales. However, there are pros and cons about owning a franchise. A person operating a licensed franchise is known as the franchisee. The company granting the license is known as the franchisor.

Franchisees have some business advantages.

1. All franchisors must supply prospects with a Uniform Franchise Offering Circular (UFOC) to provide accurate information about the franchise agreement.
2. All franchisors supply an "Operating Manual", which is sometimes called a "Confidential Manual" or a "Policy and Procedure Manual". Regardless of the name, it is a valuable tool for running a successful business and avoiding business mistakes.
3. A franchisee gets "instant customers" from the franchisor's national "goodwill".
4. The franchisee gets company directed advertising and use of a recognized logo. Many franchisors match the dollars spent by the franchisee.
5. The franchisee gets an exclusive territory. The franchisor agrees not to license another person within a given radius.
6. The franchisee will offer goods or services that equal the national standards set by the

franchisor. (A Big Mac in Breezewood is the same as a Big Mac in Boston.)

Franchisees have some business disadvantages.

1. Most franchisees must purchase all supplies from the franchisor - even equal quality items that could be purchased for less on the open market.

2. Many franchisees went into business to get away from overbearing bosses, and resent the franchisor constantly telling them what to do and how to do it.

3. Some franchisors "pad" market research for a new location. The franchisee finds it impossible to reach the volume level predicted.

4. Some franchisees report that the franchisor is abrupt when called for business advice.

5. Minority franchisees often see good locations going to franchisor "insiders" and the marginal locations dumped on other minority franchisees.

6. Franchisees state that once the franchisor's sales representatives know a prospect is serious, high pressure tactics are used to establish a new franchise.

Franchise Review

After studying the preceding part of Unit 7, each student will be able to answer the following questions with 100% accuracy:

11. What is a franchise?

12. Why do franchisees need an "exclusive territory"?

13. Is it fair for a franchisee to have to buy only from the franchisor? Why?

14. Why would a franchisor save choice locations for friends?

BOTH MEN AND WOMEN ARE BECOMING ENTREPRENEURS AND FRANCHISEES AT RECORD NUMBERS TODAY

UNIT 7 SUMMARY

A sole proprietorship is a business owned by one person and operated to generate a profit. Sole proprietorships are easy to form and dissolve in the United States.

Partnerships are associations of two or more persons to carry on a business for profit as co-owners. Most partners own equal shares, but any ratio may be agreed upon when the partnership is drawn up.

An incorporated business is called a corporation. This is the most complex form of business and is chartered by each state. The corporation limits liability of the investors to the amount invested. Personal property is not in danger in a bankruptcy proceeding. Profits are either reinvested, paid to stockholders in the form of dividends, or a combination of the above.

A franchise is a licensed business operating under a franchisor. Franchisees often see themselves turning a profit much sooner than if they had started the business from scratch. Franchisors require much of franchisees. Some franchisees resent being told exactly how to operate the franchise.

STUDENT LEARNING ACTIVITIES

1. List any corporations that do business in Fulton County.

2. What Fulton County corporation is listed in the New York Stock Exchange and what is its "big board listing"?

3. Visit a franchise in Fulton County. Ask the owner, "If you were to do it again, would you still be a franchisee?"

UNIT 8

8

UNIT 8 Expanding with Employees

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

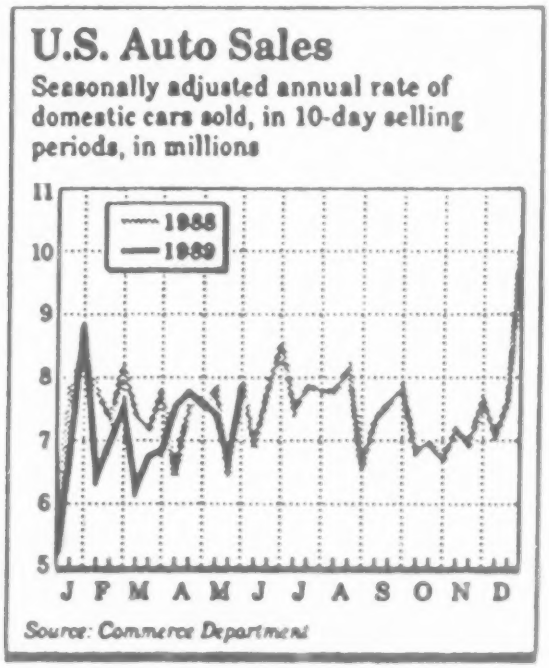
- Understand why a business hires and fires.
- List three good sources of potential employees.
- Understand the cost of wages and benefits.

HIRING AND FIRING

All businesses have ups and downs in sales. Predictable sales swings are said to be cyclic, meaning to recur in a cycle. To offset the slow fall months in auto sales, manufacturers began introducing the new models about October each year. Special incentives are offered during other slow months, but auto sales still follow a predictable yearly cycle.

Many businesses are cyclic, but not all businesses have the same "good" or "bad months. A standard joke around auto body shops in February, a traditional slow month, is "What we need now is a good ice storm!" One person's loss is almost always another's gain! Most business owners are rightfully hesitant when discussing a customer's bad luck. However, one mechanic is

reported to have said the following when his physician customer asked him what he saw under the hood: "The same thing you see when you look down my throat, Doc - dollar signs."



When times are good and sales have been improving for months or even years, many entrepreneurs start to think about expanding by adding one or more employees. This means selecting, training, delegating responsibility and occasionally firing an employee. The "bottom line" for any employer is- does the employee generate enough business to pay for all their wages and benefits and still earn the company extra profit? For most employees the rule of thumb is : add

1/3 of the wage rate for benefits. Thus a six dollar an hour employee really costs the business eight dollars per hour. ($6. - 3 = $2. plus the original $6. equals $8 per hour.)

Sole proprietors seldom have experience as personnel managers. When hiring, the basic concept is to write a job description and state, for example:

HELP WANTED
LANDSCAPE CONSTRUCTION
SUPERVISOR
Well established design/build firm on Cape Cod is seeking an experienced landscape supervisor. We are interested in a highly motivated professional who is capable of taking charge of a job from beginning to completion. Ability to communicate with clients and employees essential.
LANDSCAPE MAINTENANCE MANAGER
Well established firm of 28 years, located on Cape Cod, is seeking an individual with landscape maintenance knowledge. Strong communication skills are essential. Must have knowledge of outdoor plants and lawn care and be able to diagnose lawn problems.
LANDSCAPE DESIGNER
Aggressive individual with a minimum of 3 years experience in landscape design, contract estimating and consumer relations. Year round position.
Salaries commensurate with abilities and experience. Vacation, Insurance plan.
Please send resumes to:
Mr. Gary Tavares
FRANCISCO TAVARES, INC.
P.O. Box 221E, East Falmouth, MA 02536
(508) 548-0811

The person being hired should be able to make money above their wages and benefits ASAP (As Soon As Possible).

Firing is usually done when the business cycle dips and there is not enough extra work being done for the employee to make money for the business. Occasionally an employee must be fired for other reasons. Dishonesty, negative personality, sub-par

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work, and abuse of company equipment are four small or minor mistakes. However, with all the good people looking for work, entrepreneurs have to think twice about retaining any "real loser".

Hiring and Firing Review

After studying the preceding part of Unit 8, each student will be able to answer the following questions with 100% accuracy:

1. When are new employees usually hired?

2. What is a just cause to fire an employee?

3. What might a garden center promote and sell during December, a normally slow month for plant sales?

SOURCES OF POTENTIAL EMPLOYEES

Always hire the best qualified person you can afford. Where might one look for a top prospect?

A. Community Colleges, colleges, or universities

B. Technical Schools

C. High Schools

D. Area Vo-Tech Schools

E. Pennsylvania Job Service

F. Employment Agencies

It would seem foolish to spend money to locate an employee when so many places on the above list are more than happy to supply prospects and will even screen applicants and offer informative, objective comments about the candidates.

Sources of Potential Employees Review

After studying the preceding part of Unit 8, each student will be able to answer the following questions with 100% accuracy:

4. List five places where an entrepreneur could reasonably expect to find qualified workers.

5. Which place on the list would likely be able to supply a landscape architect? Explain.

6. If a cosmetologists is needed, where might the entrepreneur call first? Explain.

WAGES AND BENEFITS

The base salary or hourly wage rate is only a portion of the total cost to place an employee on the payroll. The following list of employee costs will not be applicable to all hiring. However, it does show many of the costs the business must pay to retain good workers.

Item	Comment
Hourly Rate	May be a salary rate
FICA (Social Security)	Mandated by federal government
Retirement Plan	Optional, may become mandated
Health Insurance	Optional, may become mandated
Eye Glasses Plan	Optional
Dental Plan	Optional
Legal Counsel Plan	Optional
Workmen's Compensation	Required
Unemployment Compensation	Required

After studying the preceding part of Unit 8, each student will be able to answer the following questions with 80% accuracy:

7. Why would entrepreneurs probably oppose legislation to require all employees to be covered with both a retirement plan and a health plan?

8. Why can a small business that pays no benefits underbid large companies that do pay benefits?

UNIT 8 SUMMARY

Most businesses hire when the business cycle is up and fire when the cycle is down. Occasionally, an employee must be fired for other reasons. Salary is not the only cost involved in hiring an employee. Benefits are often called "hidden costs." At least 1/3 of the wage cost must be added as an expense to the business to cover benefits.

When searching for new employees, top prospects can often be found at appropriate schools. This can save the entrepreneur time and money as the instructors will screen applicants and the cost of classified advertising is eliminated.

The hourly wage rate is the largest portion of the total cost of placing a worker on the payroll.

Benefits cause the cost of having employees to increase as more perks (benefits) are added and insurance rates increase.

STUDENT LEARNING ACTIVITIES

1. Ask a Fulton County entrepreneur why they might want to add an employee to their business and what factors led to the last person being hired.

2. Ask an entrepreneur what factors would cause them to fire an employee.

UNIT 9

UNIT 9 - Product Sales

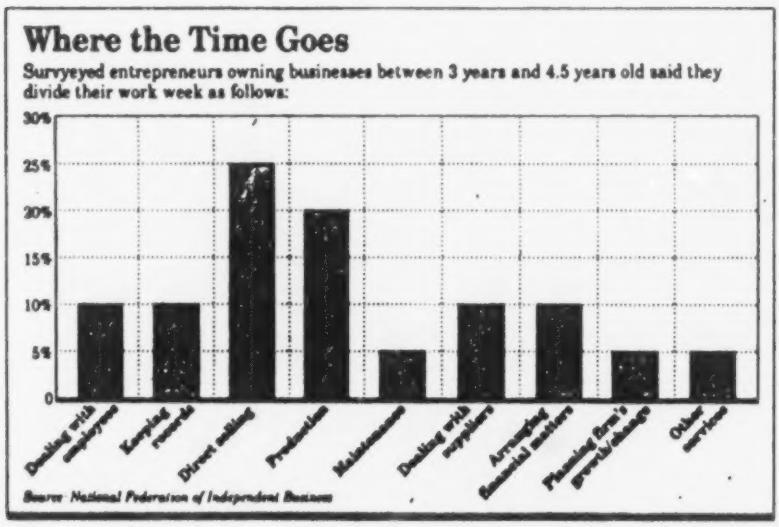
COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Explain why the top priority of any business is sales.
- Define cash flow projections.
- Explain the "features and benefits" sales approach.
- Explain sales closing.

PRODUCT SALES

All businesses are tracked by the total sales of their goods and services. No matter how well a product is engineered nor how precisely it is manufactured, unless it sells well in the marketplace, the product is doomed. The total sales of any business must be satisfactory or the business is likewise doomed.



Occasionally all businesses are forced to sell an item for less than cost. The business person with savvy tries to limit such losses to the absolute minimum. One must follow consumer purchasing trends to not end up with items no longer in demand. Parts for equipment that is being phased out should not be reordered unless the part is still selling well.

Product sales should be totalled monthly or weekly. Compare sales to last week, last month and to a year ago. What has caused the change?

General Douglas MacArthur said, "In war there is no substitute for victory". In business there is no substitute for a sale made with an adequate profit margin.

Product Sales Review

After studying the preceding part of Unit 9, each student will be able to answer the following questions with 100% accuracy:

1. Why are total sales a valuable method to see if any business is doing well?
2. How could an entrepreneur have high sales yet be losing money?
3. Why do many business persons occasionally have to sell an item below cost?

CASH FLOW PROJECTIONS

The definition of cash flow projection is: an estimate of cash that will be coming in and going out during the upcoming month. This will alert the entrepreneur if a possible cash shortage might arise. Cash flow is included in the product sales unit because the sales of goods or services are essentially the only way business receipts (Cash In) can be increased. Many of the business expenditures (Cash Out) continue regardless of the level of sales. Examine the cash flow projection chart on the following page to better understand this concept. Two ways to handle a cash shortage:

A. Don't pay bills until the money comes in.

or

B. Borrow money to pay the bills.

Many businesses combine the two ways to handle a cash shortage. Bills such as electricity that will be shut off are paid and other bills may become 60 or 90 day accounts, even if it means paying a 1 1/2% carrying charge.

When money is short, go after the accounts receivable. This gets money in to pay bills without borrowing.

CASE STUDY

Paul had a small machine shop that turned out machined metal products for industry. His cash flow slowed, leaving him with a $200. electric bill he was unable to pay. The power company served notice that the power would be shut off in two days. Meanwhile, Paul had done a $1,700. job for the power company over two months ago and had never gotten paid. A phone call to the business office not only kept the power on, but it helped Paul handle other obligations.

Sample Estimated Cash Flow
Projection - Month of July

	Cash In	Cash Out	Balance
Cash on hand July 1	-	-	$ 700.
July 1 Utilities	-	$ 100.	600.
July 1 Rent	-	200.	400.
First Week Receipts	$1,500.	-	1,900.
First Week Inventory Purchases	-	1,000.	900.
Misc. First Week Supplies	-	50.	850.
Second Week Receipts	1,500.	-	2,350.
Mid-Month Payroll	-	400.	1,950.
Third Week Receipts	1,500.	-	3,450.
Misc. Third Week Supplies	-	50.	3,400.
Fourth Week Receipts	1,500.	-	4,900.
Month-End Payroll	-	400.	4,500.
Fourth Week Inventory Purchases	-	1,000.	3,500.
Personal Draw (Owner Salary)	-	2,000.	1,500.
Cash on hand July 31	-	-	1,500.

Cash Flow Projections Review

After studying the preceding part of Unit 9, each student will be able to answer the following questions with 100% accuracy:

4. Define cash flow projection.
5. Why would an entrepreneur pay on bill and let others slide?
6. Where did the income originate on the above Estimated Cash Flow Projection?

SELLING FEATURES AND BENEFITS

Customers think that they buy only when they need a product. As an entrepreneur, you job is to convert wants to needs. Convert wants into sales; most of the things people buy really ARE NOT needs.

A proven method in selling is stressing feature and benefits. A feature is a characteristic of the product or service. The benefit is how that feature affects the customer. By using the "features and benefits" approach, the sales rep directs the sales pitch <u>on</u> the product and to the customer - the two things that come together when the sale is made. Note: sports, weather, politics and clever jokes waste time!

An example of "features and benefits" using a tractor tire:

Sales Rep: "Note the two inch deep lugs in this rear tire . . . this means your tires will pull better and wear longer".

Customer: "Those side walls don't seem very flexible".

Sales Rep: "Those side walls happen to be eight ply - the best in the industry . . . and this means they won't blow out easily and will last twice as long as a four ply.

Notice how the sales rep kept the discussion on target and did not waste time. The real beauty of

"features and benefits" selling is the simplicity and its effectiveness.

Features and Benefits Review

After studying the preceding part of Unit 9, each student will be able to answer the following questions with 100% accuracy:

7. What is a feature?
8. What is a benefit?
9. A barn painter explained to a customer, "I use only oil base semi-gloss paint . . . and that means_____
_____
_____
(Finish by stating the benefit.)

SALES CLOSING

A "sales closing" is the way by which the seller convinces the buyer to make a purchase. To be a successful entrepreneur, one must learn how to become a successful sales person. No matter what goods or services are being offered, they must be sold. Frequently the entrepreneur does not have a professional sales staff.

Ask for the sale in a positive manner and make it easier to say "yes" than "no". Successful sales reps always ask for the sale.

Unsatisfactory Sales Close

Seller: "You don't want to buy this new car tonight, do you?"

Buyer: "No, I'm Just looking".

Satisfactory Sales Close

Seller: "Which car do you want tonight, the red one or the blue one?"

Buyer: "If the blue one only had cruise control, I'd take it".

Seller: "If you O.K. this contract, I'll have the service department put on a cruise control in the morning at no charge. You can pick it up by lunch time".

When the buyer said, "If the blue one only had cruise control . . ." the seller recognized that as a buying signal. A buying signal is a statement or action on the part of the buyer that indicates that a sale can likely be made to the customer. If the customer asks for a demo on the blue car, this is also a buyer signal.

Ask for the sale several times. The dialogue continues below:

Buyer: "That's no good to me. I have to work all day".

Seller: "If you O.K. this right here, I'll have the cruise put on, throw in a full set of floor mats, and give you a full tank of gas".

Buyer: "I thought everybody got a full tank of gas here."

Seller: "I didn't know you were aware of that. See those jumbo ice chests setting over there? O.K. this tonight and when you pick up your care after work tomorrow there will be an ice chest full of pop in the trunk for you. Do you want a green ice chest or a blue one?"

Buyer: "Let me sign that. I'll take the green ice chest, full of beer".

Seller: "Thanks, I value your business. That'll be the green ice chest full of root beer. We can't mix drivin' and drinkin', you know".

From the dialogue notice that the seller ask for the sale four times. Also notice that the seller did not make a big deal out of signing the contract.

The sales rep attempted four sales closings before the customer agreed to buy the blue car. What about the cost of the "goodies" used to close the sale?

Item	Cost
Cruise Control	$150.
Floor Mats	45.
Tank of Gasoline	15.
Ice Chest	20.
Ice	1.
Case Root Beer	6.
TOTAL	$237.

Wouldn't you spend $237 to sell a $14,000 car?

Sales Closing Review

After studying the preceding part of Unit 9, each student will be able to answer the following questions with 100% accuracy:

10. Define "Sales Close".
11. Why should on avoid negative sales closings?
12. Why does a sales rep attempt many sales closes?
13. What is a buying signal?

Unit 9 SUMMARY

Total sales of goods and services is a convenient way to track any business, but the normal profit must be built into each sale or the business volume will be misleading.

Cash flow projection is an estimate of money coming in and going out during the upcoming month. When cash flow is down, attempt to collect some accounts receivable before borrowing money for expenses.

A feature is a characteristic of a product or service offered for sale, whereas a benefit is how that feature will help the customer.

Sales closes are the way the sales rep gets the customer to turn a want into a purchase. State sales closes in a positive manner and attempt several before giving up on any customer.

STUDENT LEARNING ACTIVITIES

1. Ask a Fulton County entrepreneur what they do to increase total sales of their business.

2. Let each member of the class bring in an item and describe the features and benefits.

3. Have each member of the class "sell" an item to the class. Prepare at least three different sales closings to practice on the class.

4. Set up a student sales contest similar to the format used for FFA Activities Week.

UNIT 10

UNIT 10 - Writing a Business Plan

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Define a business plan.
- List the five major parts of a business plan.
- Write a simple business plan.

BUSINESS PLAN

A business plan is: a brief written statement of how an entrepreneurial idea can be molded into a successful business. The business plan is a road map of the proposed venture. The business plan explains what you intend to do, how you intend to do it, and if the proposed venture can generate a profit. Sometimes a business plan will reveal that although the idea at first seemed to have merit, the venture will not generate a profit and therefor should be forgotten.

In order for banks, venture capitalists, independent investors, and the SBA (Small Business Administration) to consider backing any venture, a business plan must be written for the proposed business.

Most prospective entrepreneurs ask, "How do I write a business plan that will attract the money, the people, and the resources that I need to start my own business?" Each proposed business is unique, but successful business plans all contain the following five elements:

1. Product or Service Description - What makes your product or service special?
2. Market Analysis - What is the target market?
3. Customer Definition - Who are your target customers?
4. Capital Requirements - How much money do you need to get started?
5. Management and Personnel - Who are the managers and workers that will be involved in your proposed company?

Business Plan Outline

I. Product or Service Description

- A. Quality of product or service
- B. Price of product or service
- C. Convenience of product or service
- D. Timeliness of service or product delivery

II. Market Analysis

- A. Target market in relation to business location
- B. Size of the marketing area
- C. Market segment
- D. Potential for growth within market area
- E. Competition within market area

III. Customer Definition

- A. Your target customers
- B. Why will customers choose your product or service?
- C. Evidence of customer demand for products or services

IV. Capital Requirements

- A. Itemized amount of money needed to get started
- B. Operating costs for forms of businesses
  1. Manufacturing - cost to make and deliver
  2. Merchandizing - cost to advertise, sell, and deliver
  3. Servicing - overhead included service prices
- C. Cash flow projection for duration of loan

V. Management and personnel team

- A. Managers - resumes with demonstrated achievement

B. Rank and file workers- documented experience to do assigned jobs
C. Salaries and wages for managers and workers
D. Supporting documentation by management

Business Plan Review

After studying the preceding part of Unit 10, each student will be able to answer the following questions with 80% accuracy:

1. Define a business plan.
2. What are the five major parts of a business plan?

Business Plan Outline
Direct Marketed Vegetable Farm

I. The products to be sold will be "homegrown" vegetables.

a. The quality of each vegetable offered for sale will be high because all approved practices will be followed and trickle irrigation will augment natural rainfall.

b. The price will be "high end" When compared to local competition, but completely justified by superior quality.

c. An on-site roadside stand will make the vegetables convenient to motorists.

d. All vegetables will be "picked in the A.M., sold in the P.M." so far as humanly possible.

II. Market Analysis

a. The target market will be "consumers living within a five mile radius" plus anyone passing through the farm on the state highway.

b. The size of the marketing area will be approximately 75 square miles.

c. The segment of the market sought will be the housewife or final consumer.

d. The potential for growth within the marketing area is excellent. Traffic count is increasing yearly, more varieties will be added, and there is a constant number of new single family dwellings being built in the marketing area.

III. Consumer Definition

a. The target customers are final users - housewives, heads of households, and persons needing large quantities for corn roasts etc.

b. Customers will choose our vegetable because improved varieties will be carefully grown to offer superior quality and vegetables not top quality will be culled and fed to livestock on the farm.

c. Evidence of customer demand has been high. During the 1989 sweet corn season it took approximately 2 1/2 hours to sell 100 dozen each day.

IV. Capital Requirements and Income

a. Annual Expenditures

1.	Fertilizer (5 tons) @ $$225	$1125.
2.	Lime (10 tons) @$30	300.
3.	Land Rental (10 Ac.) @$50./Ac.	500.
4.	Seed and transplants	.750.
5.	Planting and tending crops, Labor	1900.
6.	Harvesting, Labor	1100.
7.	Equipment Rental @ Custom Rates	.500.
8.	Pesticides	.250.
9.	Marketing, Labor (48 Hr/Wk, 12 Wks @$4./)	2300.
	Total Costs	$8725.

b. Weekly Income (With no Sunday Sales)

1.	Sweetcorn (200 doz/day @$2.)	$2400.
2.	Muskmelons (200 daily @ $1.25)	750.
3.	Tomatoes (100 lb/day @ .70)	420.
4.	Peppers (50lb/day .50)	150.
5.	Misc. crops ($25./day)	.150.
		$3870.
	Selling July 15th to September 15th	X 8.
		$30960.
	Less Costs	-8725.
	Profit	$22235.

V. Management and Personnel Team

a. Manager will be Vo-Ag trained graduate
b. Production, Harvesting, and Sales
(High School students w/positive attitudes)
c. Salaries to planters, harvesters, and sellers: $4./Hr.
d. Supporting Documentation of Manager, see attached Resume

R E S U M E

FULTON S. STUDENT

HCR 1 Box 1989
McConnellsburg, PA 17233 Telephone: 717-485-1989

Single 5'9" 160 pounds 18 years old

OBJECTIVE . To disclose capabilities related to the management of selected business.

EDUCATION Diploma

1985 to 1989 . Received high school diploma from Fulton Co. High School in May, 1989. Subjects studied that are directly related to the operation of the described business include Business Math I, Bookkeeping I and II, Vocational Agriculture, and Speech. Four year member of the FFA, competed in the state Salesmanship Contest two years, won Silver Award in 1989.

EXPERIENCE Frank's Fruit Farm Harrisonville, PA
Violet's Vegetable Farm Meedmore, PA

1988 to 1989 . Two Years selling fruits and vegetables at Frank's Fruit Farm Market located on Route 30. Average daily gross sales for the July-September period in 1988-89 was $476. per day. Responsible for product displays, inventory replacement, and balancing daily income with quantities consigned to the market from the farm.

1986 to 1987 . Two years working part time for Violet's Vegetable Farm in all phases of vegetable production including tillage, planting, irrigation, spraying, harvesting, and grading. Instrumental in setting up trickle irrigation system on muskmelons that added 50% to the number of melons marketed from each acre.

MILITARY Pennsylvania National Guard

1986 to 1987 . Reported to two week summer camp at Fort Indiantown Gap during June of 1987 through 1989. Adapted military vehicle preventive maintenance records for use on power farm machinery at Violet's Vegetable Farm. Received "Soldier of the Week" award in 1988.

PERSONAL BACKGROUND . Borough up in McConnellsburg. Member of local 4-H Club three years during Junior High School. During junior year of high school won the Eastern U.S. Skeet Shooters Top Award at the regional competition in Eastern, Maryland.

INTERESTS . Interests include bicycling, swimming, trap shooting, hunting and gardening.

REFERENCE . References will be furnished upon request.

After studying the business plan outline and the sample business plan, each student will be able to write a satisfactory business plan for a small business that could be operated in Fulton County.

1. Select a very limited service business and write a business plan for it following the outline in this unit.

(A typical service business to select for the business plan might be detailing automobiles or altering and repairing clothing.)

WRITING A BUSINESS PLAN REVIEW

A business plan is a concise written statement explaining how a proposed business venture can be successfully operated. It includes what the product or service will be, a market analysis, the customer definition, capital requirements, and who will manage and operate the venture.

STUDENT LEARNING ACTIVITIES

1. Ask a Fulton County Bank manager what type of a business plan they require in order for the bank to issue a loan for a small business.

2. Find a business plan from any source and compare it to the business plan outline. List on a sheet of paper any part from the business plan outline that the actual business plan omitted.

UNIT 11

UNIT 11 Record Keeping and Taxes

COMPETENCY OBJECTIVES

After studying this unit, each student will be able to:

- Define bookkeeping.
- Explain why records are kept.
- Explain the necessity for a business checking account.
- Define double entry ledger system.
- Complete common state and federal tax forms.
- Explain the dangers of extending credit to customers.

BOOKKEEPING AND RECORDS

Bookkeeping is: a system designed to record and summarize business transactions- business purchases, cash sales, credit sales, payrolls, inventory and equipment using ledgers. A ledger is the bound paper on which the entries are posted.

Many new entrepreneurs think bookkeeping is done only because the government (really the Internal Revenue Service) requires a set of books. However, without accurate records the entrepreneur will be unable to make sound business decisions. Records are kept for the following reasons:

1. To meet the requirements of the IRS.
2. To determine which parts of the business are strong (turning a good profit).

3. To determine which parts of the business are weak (breaking even or losing money).

BOOKKEEPING AND RECORDS REVIEW

After studying the preceding part of Unit 11, each student will be able to complete the following with 100% accuracy:

11-1. Define bookkeeping.

11-2. List two reasons why entrepreneurs need accurate records.

BUSINESS CHECKING ACCOUNT

A business checking account is: a bank checking account into which all receipts are deposited and from which all business expenses are drawn. The following three rules apply to using a business checking account:

1. Pay all your business bills by check and write in the memo space at the lower corner the purpose for the payment. A check for petty cash will record how much money is being spent for postage and other small items if a pocket ledger is kept and used in the petty cash drawer.

2. Deposit all business income, both cash and checks, into the business checking account. This gives a complete record of business income.

3. When money is withdrawn for non-business use, write a check to yourself. This is known as a personal draw. Many entrepreneurs write this check for the same amount every two weeks - just as though they were receiving a paycheck from a job.

A business checking account must be handled correctly. The following three rules apply to handling the business checking account:

1. Balance the checkbook each month using the method set forth by your bank on the monthly statement.

2. Retain cancelled check for three years as proof of payment and for the possibility of an IRS audit.

3. Never write checks for "Cash". If money for petty cash is needed write the check to yourself and note "Petty Cash" in the memo blank.

If the business checking account is used correctly, one will automatically have a set of records. However, to analyze this simple method, a certified public accountant (CPA) should be hired. Successful entrepreneurs listen to their CPA..

After studying the preceding part of Unit 11, each student will be able to complete the following with 100% accuracy:

11-3. What is a business checking account?

11-4. Why must ALL receipts and expenditures go though the business checking account?

11-5. Why should business checking account canceled checks be retained for three years?

DOUBLE ENTRY LEDGER SYSTEM

The concept of a double entry ledger system is not difficult. By studying the sample ledger one can grasp the principle. However, unless the system is used and kept up to date, it will likely not work. One way to keep the record each transaction IMMEDIATELY following the receipt or expenditure.

RECEIPTS AND EXPENSES

DATE	DESCRIPTION	Quantity	TOTAL RECEIPTS		TOTAL EXPENSES		1. SNOW REMOVAL				2. GREEN HOUSE				3. LAWN SERVICE			
							RECEIPTS		EXPENSES		RECEIPTS		EXPENSES		RECEIPTS		EXPENSES	
1-1-89	BEGINNING INVENTORY	-	XX	X	42,000	00	XX	X	2,000	-	XX	X	10,000	-	XX	X	30,000	00
1-8-89	Gasoline	58			58	50			58	50								
1-8-89	Snow Removal		642	30			642	30										
1-29	Gasoline	27			27	40			27	40								
1-29	Snow Removal		315	60			315	60										
2-1-89	Gasoline	15			15	50			15	50								
2-1-89	Snow Removal		185	20			185	20										
2-15	Propane				845	00							845	00				
2-22	Pro Mix "A"	10			215	00							215	00				
3-1-89	Gasoline	23			24	50			24	50								
3-1-89	Snow Removal						215	60										
3-15	Urea Fertilizer	2 T			490	00											490	00
3-22	Mums	20 D	960	00							960	00						
3-29	Malathion	1 G			28	30							14	15			14	15
4-1-89	Dacthal	100#			205	20											205	20
4-15	Lawn Service Spraying		1855	30											1855	30		
4-29	Gasoline	48			52	32											52	32
4-30	Mums	50 D	2400	00							2400	00						
5-1-89	Lawn Service Spraying		1815	00											1815	00		
5-1-89	Gasoline	150	162	50													162	50
5-1-89	Bedding Plants		650	20							650	20						
5-8-89	Lawn Service Spraying		1940	00											1940	00		
	BEST COPY AVAILABLE																	
	TOTAL CARRIED FORWARD		114[illegible]70		[illegible]617[illegible]35[illegible]0		2[illegible]90[illegible]0				[illegible]1,07[illegible]15				9[illegible]0	30[illegible]0	924	17

11-3-A

By examining the sample double entry ledger, one can see that it is a complete bookkeeping system that provides cross checks, minimizes errors, and make bookkeeping an exact science.

DOUBLE ENTRY LEDGER SYSTEM REVIEW

After studying the preceding part of Unit 11, each student will be able to complete the following with 100% accuracy.

11-6. What are the total receipts entered on 4-15?

11-7. What <u>two</u> parts of the business were charged for one half gallon of Malathion on 3-29?

PA STATE SALES TAX

Pennsylvania state sales tax must be reported and paid using the form below. If monthly sales of taxable item exceed _____ the report must be filed monthly instead of quarterly.

REV-438 AS• (5-81) BUREAU OF ACCOUNTS SETTLEMENT	INSTRUCTIONS AND TAXPAYER FILE COPY FOR FILING SALES, USE, AND HOTEL OCCUPANCY TAX RETURN	PERIOD FROM 4-1-89 TO 5-31-89

TAXPAYER FILE COPY

A	Total Gross Sales, Rentals and Services	4,861	20
B	Non Taxable Sales, Rentals and Services	441	60
C	Net Taxable Sales, Rentals and Services (Line A Less Line B)	4,419	60
D	Total Amount of Tax Collected	265	18
E	Less 1% Discount If Return is Filed and Tax Paid Before Due Date (1% of Line D)	2	65
F	Net Sales and/or Hotel Occupancy Tax Due (Line D Less Line E)	262	53
G	Amount of Use Tax Incurred for Purchases, Services, Transfers, or Imports on Which No Penna. Tax Was Charged By Vendor.	-	-
H	Total Tax Due (Line F Plus Line G)	262	53
I	Add 5% of Tax (Amount of Line D Plus Line G) for Each Month or Fraction Thereof of Delinquency, not to Exceed 25%, But In No Case Less Than $2.00.	-	-
J	Add Interest At The Rate of ¾ of 1% (.0075) on Tax (Amount of Line D Plus Line G) For Each Month or Fraction Thereof of Delinquency.	-	-
K		-	-
L	Total Amount Due Commonwealth	262	53

INSTRUCTIONS FOR FILING SALES, USE, AND HOTEL OCCUPANCY TAX RETURN

A. Enter the total gross sales, rentals (leases), and services, both taxable and non-taxable, for the period of this return. Returned or cancelled sales and allowances due to defective or damaged merchandise shall be deducted from the amount of gross sales when both the sale and the return occurred within the reporting period.

B. Enter all non-taxable sales, rentals, and services.

C. Enter the net taxable sales, rentals, and services (the amount shown in item A, less amount shown in item B).

D. Enter the total amount of tax actually collected or the amount of tax incurred, whichever is greater. You must remit the entire amount of tax collected even though your total collections exceed 6% of your net taxable sales as shown in item C.

E. Subtract 1% discount if return is filed and tax paid by due date (1% of Line D).

F. Net amount of tax due (line D less line E).

G. Enter the amount of tax due. Use tax is computed at the rate of 6%.

H. Enter the total amount of tax due (amount shown in line F, plus amount shown in line G).

I. Enter penalties at the rate of 5% of the total tax due (amount of line D plus line G) for each delinquent month or fraction, the maximum penalty is 25% of tax due; in no case shall it be less than $2.00.

J. Enter interest at the rate of ¾ of 1% of the total tax due (amount of line D plus line G) for each month or fraction of a month for which tax remained unpaid.

L. Enter the total amount of tax, penalty, and interest due. This total is the amount required to be remitted to the Commonwealth with your return.

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Not all sales in Pennsylvania are taxable. The basic exception are: groceries, clothing, prescription drugs, and most items purchased for a farming operation.

SALES TAX REVIEW

After studying the preceding part of Unit 11, each student will be able to complete the following with 100% accuracy .

11-8. What determines whether a business reports sales tax quarterly or monthly.

11-9. Why would there be PA sales tax on light bulbs purchased at a super market, but not on the bread and milk rung up at the same time?

FEDERAL TAXES

Profit or loss from a business (sole proprietorship) is reported on schedule C, form 1040. A sample is shown on the following page. Note that such things as cost of goods sold, advertising, car and truck expenses and insurance are subtracted from the gross receipts or sales. Unless the business is quite small, a CPA should be retained to assist the entrepreneur in preparing schedule C for inclusion in the federal income tax.

IRS (Internal Revenue Service) rules for small farmers are different from the rules for other small businesses. Due to this difference, farm income and expenses are reported on schedule F of form 1040. A sample completed form is shown on the following page.

Most farmers choose the cash method because the bookkeeping is much easier. Farming is the only small business that can have an inventory and still use the cash method of bookkeeping.

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

Partnerships, Joint Ventures, Etc., Must File Form 1065

▶ Attach to Form 1040, Form 1041, or Form 10415 ▶ See Instructions for Schedule C (Form 1040)

OMB No. 1545-0074

1988

Attachment Sequence No. 09

Name of proprietor: Roberta Fulton

Social security number (SSN): 987 65 4321

A Principal business or profession, including product or service (see instructions): Beauty shop

B Principal business code (from Part IV) ▶ 8 1 1 0

C Business name and address ▶ Roberta's 123 Fulton Way McConnellsburg, PA

D Employer ID number (Not SSN): NONE

E Method(s) used to value closing inventory: (1) [X] Cost (2) [ ] Lower of cost or market (3) [ ] Other (attach explanation)

F Accounting method: (1) [ ] Cash (2) [X] Accrual (3) [ ] Other (specify) ▶

		Yes	No
G	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? (If "Yes," attach explanation.)		X
H	Are you deducting expenses for business use of your home? (If "Yes," see instructions for limitations.)		X
I	Did you "materially participate" in the operation of this business during 1988? (If "No," see instructions for limitations on losses.)	X	

J If this schedule includes a loss, credit, deduction, income, or other tax benefit relating to a tax shelter required to be registered, check here ▶ [ ]
If you check this box, you MUST attach Form 8271.

Part I Income

1a	Gross receipts or sales	1a	25,932
b	Less: Returns and allowances	1b	
c	Subtract line 1b from line 1a. Enter the result here	1c	25,932
2	Cost of goods sold and/or operations (from Part III, line 8)	2	2,536
3	Subtract line 2 from line 1c and enter the gross profit here	3	23,396
4	Other income (including windfall profit tax credit or refund received in 1988)	4	
5	Add lines 3 and 4. This is the gross income ▶	5	23,396

Part II Deductions

6	Advertising	6	260	23 Repairs	23	192
7	Bad debts from sales or services (see instructions)	7		24 Supplies (not included in Part III)	24	
8	Bank service charges	8		25 Taxes	25	112
9	Car and truck expenses	9		26 Travel, meals, and entertainment		
10	Commissions	10		a Travel	26a	
11	Depletion	11		b Meals and entertainment		
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III)	12	176	c Enter 20% of line 26b subject to limitations (see instructions)		
13	Dues and publications	13	36	d Subtract line 26c from 26b	26d	
14	Employee benefit programs	14		27 Utilities and telephone	27	
15	Freight (not included in Part III)	15		28a Wages		
16	Insurance	16	981	b Jobs credit		
17	Interest			c Subtract line 28b from 28a	28c	
a	Mortgage (paid to banks, etc.)	17a		29 Other expenses (list type and amount)		
b	Other	17b	124	1990's Style Book	29	48
18	Laundry and cleaning	18	660			
19	Legal and professional services	19				
20	Office expense	20	48			
21	Pension and profit sharing plans	21				
22	Rent on business property	22	3,600			

30	Add amounts in columns for lines 6 through 29. These are the total deductions ▶	30	6,237
31	**Net profit or (loss).** Subtract line 30 from line 5. If a profit, enter here and on Form 1040, line 12, and on Schedule SE, line 2. If a loss, you MUST go on to line 32. (Fiduciaries, see instructions.)	31	17,159

32 If you have a loss, you MUST check the box that describes your investment in this activity (see instructions)
- 32a [ ] All investment is at risk.
- 32b [ ] Some investment is not at risk.

If you checked 32a, enter the loss on Form 1040, line 12, and Schedule SE, line 2. If you checked 32b, you MUST attach Form 6198.

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1	Inventory at beginning of year (If different from last year's closing inventory, attach explanation.)	1	300
2	Purchases less cost of items withdrawn for personal use	2	2,486
3	Cost of labor. (Do not include salary paid to yourself.)	3	
4	Materials and supplies	4	
5	Other costs	5	
6	Add lines 1 through 5	6	2,786
7	Less: Inventory at end of year	7	250
8	**Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter the result here and in Part I, line 2	8	2,536

Part IV Codes for Principal Business or Professional Activity

Locate the major business category that best describes your activity (for example, Retail Trade, Services, etc.). Within the major category, select the activity code that identifies (or most closely identifies) the business or profession that is the principal source of your sales or receipts. Enter this 4-digit code on line B on page 1 of Schedule C. (Note: If your principal source of income is from farming activities, you should file Schedule F (Form 1040), Farm Income and

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A farmer can deduct the cost of feed, fertilizer and seeds the year of purchase even if they were bought for future use, as long as these costs do not exceed 50% of the expenditures.

Farmers that earn two-thirds of their income from farming are also exempt from making quarterly estimated tax payments. Full time farmers may deduct all farm expenses. THe IRS states: "The farm must be operated for profit, However you will not ordinarily be considered as operating a farm for profit if you raise crops or livestock mainly for family use, but derive some income from occasional sales."

Self-employment tax is social security tax for persons who are self-employed. The 1988 rate is 13.02 percent on profits up to $45,000. Those considered to be self-employed are sole proprietors, partners, and independent contractors.

Self-employed persons with profits of $400 or less do not have to pay self-employment tax. However, if one earns $401, payment of 13.02 percent must be made on the entire amount.

It is possible not to owe federal income tax yet owe money for self-employment tax. If the business is operated as a "husband and wife partnership" both spouses owe the self-employment tax. If the business owned by a husband and wife is operated as a sole proprietorship, only one spouse pays the self-employment tax.

An example of self-employment tax computed to match the profit or loss from a business (sole proprietorship) found on page 11-6 is shown on the following page.

As stated on this page farmers that earn two thirds or more of their income from farming do not need to make a quarterly estimated income tax payment. However, for entrepreneurs who have an income and

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service (3)

Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1988
Attachment Sequence No. 18

Name of person with **self-employment** income (as shown on social security card)
Roberta Fulton

Social security number of person with **self-employment** income ▶ 987 : 65 : 4321

Who Must File Schedule SE

You must file Schedule SE if:

- Your net earnings from self-employment were $400 or more (or you had wages of $100 or more from an electing church or church organization); AND
- You did not have wages (subject to social security or railroad retirement tax) of $45,000 or more.

For more information about Schedule SE, see the Instructions.

Note: *Most taxpayers can now use the new short Schedule SE on this page. But, you may have to use the longer Schedule SE that is on the back.*

Who MUST Use the Long Schedule SE (Section B)

You must use Section B if ANY of the following applies:

- You choose the "optional method" to figure your self-employment tax. See Section B, Part II;
- You are a minister, member of a religious order, or Christian Science practitioner and received IRS approval (from **Form 4361**) not to be taxed on your earnings from these sources, but you owe self-employment tax on other earnings;
- You are an employee of a church or church organization that chose by law not to pay employer social security taxes;
- You have tip income that is subject to social security tax, but you did not report those tips to your employer; OR
- You are a government employee with wages subject ONLY to the 1.45% medicare part of the social security tax.

Section A—Short Schedule SE

(Read above to see if you must use the long Schedule SE on the back (Section B).)

1	Net farm profit or (loss) from Schedule F (Form 1040), line 39, and farm partnerships, Schedule K-1 (Form 1065), line 14a	1	
2	Net profit or (loss) from Schedule C (Form 1040), line 31, and Schedule K-1 (Form 1065), line 14a (other than farming). See the Instructions for other income to report	2	17,159
3	Add lines 1 and 2. Enter the total. If the total is less than $400, **do not** file this schedule	3	17,159
4	The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (tier 1) for 1988 is	4	$45,000 00
5	Total social security wages and tips from Forms W-2 and railroad retirement compensation (tier 1)	5	
6	Subtract line 5 from line 4. Enter the result. (If the result is zero or less, **do not** file this schedule.)	6	
7	Enter the **smaller** of line 3 or line 6	7	17,159
	If line 7 is $45,000, enter $5,859 on line 8. Otherwise, multiply line 7 by .1302 and enter the result on line 8		×.1302
8	Self-employment tax. Enter this amount on Form 1040, line 48	8	2,234

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule SE (Form 1040) 1988

11-7-A

self-employment tax combined that exceeds $500., quarterly installments are required. (The government wants the money on the following dates: April 15, June 15, September 15, and January 15. The January installment may be skipped if one files the tax return by January 31 and pays the balance due. The estimated tax is calculated by taking the total income tax for the prior year and dividing it by four. Quarterly installments are submitted using form 1040 ES, shown below. There will be four vouchers (one for each quarter) during the year. Adjustments to income will alter the amount of actual tax paid.

Form **1040-ES** | **1989**
Department of the Treasury
Internal Revenue Service | **Payment-Voucher**

Return this voucher with check or money order payable to the Internal Revenue Service. Please write your social security number and "1989 Form 1040-ES" on your check or money order. Please do not send cash. Enclose, but do not staple or attach, your payment with this voucher.
File only if you are making a payment of estimated tax.

OMB No 1545 0087
Expires 8 31 91

(Calendar year—Due Jan. 16, 1990)

1 Amount of payment
$ 770.

2 Fiscal year filers enter year ending
(month and year)

Please type or print

Your first name and initial	Your last name	Your social security number
Roberta	Fulton	987-65-4321
(If joint payment, complete for spouse) Spouse's first name and initial	Spouse's last name if different from yours	If joint payment, spouse's social security number

Address (number and street)
123 Fulton Way

City, state, and ZIP code
McConnellsburg, PA 17233

For Paperwork Reduction Act Notice, see instructions on page 1. **Page 5**

TAX REVIEW

After studying the preceding part of Unit 11, each student will be able to complete the following with 100% accuracy.

11-8 In Schedule C why is the cost of good sold (line 2) subtracted from gross receipts or sales (Line 1)?

11-9 What portion of a farmer's total income must come from the farm in order for the farmer to be exempt from quarterly IRS payments?

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11-10 List five common farm deductions found on Schedule F (Form 1040) Part II:

11-11 How does a self-employed person pay social security tax?

11-12 What form is used to pay estimated IRS quarterly installments?

EXTENDING CREDIT TO CUSTOMERS

Credit is defined as: time given for payment of goods or services sold on trust terms. Many small businesses have failed because customers that were extended credit a certain percentage of the accounts will become uncollectible. Delinquent customers often become enraged when asked to pay their bills in a timely fashion. One entrepreneur said, "If I could give any young business person a bit of advice it would be : Do not extend credit to anyone."

Credit customers require more bookkeeping, cause collection problems, and if records are dept on a cash basis, IRS will mot permit bad debits to be written off.

The hardest part is to get customers to pay past-due or "slow accounts." Each entrepreneur must decide if the extra sales generated by credit is worth the hassle. Even Master Cards or VISA cards are a hassle and 3 to 5% of the sale price goes for processing.

CREDIT REVIEW

After studying the preceding part of unit 11, each student will be able to complete the following with 100% accuracy:

11-13 Define credit.

11-14 What is the reason for entrepreneurs to extend credit?

11-15 Why is all credit somewhat of a hassle?

UNIT 11 SUMMARY

Bookkeeping is a system to record and analyses business transactions. A simple way for an entrepreneur to keep records is by using a business checking account and hiring a certified public accountant to sort everything out and complete all tax requirements. Various IRS forms are required for reporting income to the Internal Revenue Service. It is the responsibility of the entrepreneur to accurately complete (or have a CPA complete) the appropriate form.

Credit extend to customers may increase sales, but delinquent accounts, bookkeeping and the bother and/or cost of using credit cards may lead entrepreneurs to the conclusion that extending credit is not wise decision.

STUDENT LEARNING ACTIVITIES

1. Visit a local entrepreneur and ask them if they do their own bookkeeping or hire a CPA.

2. Ask a local business owner if credit collections are much of a problem.

3. Find an entrepreneur in Fulton County who refuses to extend credit and ask them how that decision was reached.

SCHEDULE F (Form 1040)

Department of the Treasury
Internal Revenue Service

Farm Income and Expenses

▶ Attach to Form 1040, Form 1041, Form 1041S, or Form 1065.

▶ See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

1988

Attachment Sequence No. 14

Name of proprietor: Frank and Frances Farmer

Social security number (SSN): 876 54 0321

A Principal Product. (Describe in one or two words your principal crop or activity for the current tax year.): Sweet corn

B Agricultural Activity Code (from Part IV) ▶ 116 0

C Accounting Method: [X] Cash [ ] Accrual

D Employer ID number (Not SSN): NONE

E Did you make an election in a prior year to include Commodity Credit Corporation loan proceeds as income in that year? [ ] Yes [X] No

F Did you "materially participate" in the operation of this business during 1988? (If "No," see Instructions for limitations on losses.) [X] Yes [ ] No

G Do you elect, or did you previously elect, to currently deduct certain preproductive period expenses? (See Instructions.) [ ] Does not apply [ ] Yes [X] No

Part I Farm Income—Cash Method—Complete Parts I and II (Accrual method taxpayers complete Parts II and III, and line 12 of Part I.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1		
2	Cost or other basis of livestock and other items you bought for resale	2		
3	Subtract line 2 from line 1		3	
4	Sales of livestock, produce, grains, and other products you raised		4	26,931
5a	Total distributions received from cooperatives (from Form 1099-PATR)	5a		
b	**Less:** Nonincome items	5b		
6	Net distributions. Subtract line 5b from line 5a		6	
7a	Total agricultural program payments	7a	7b Taxable amount	7b
8a	Commodity Credit Corporation (CCC) loans reported under election (see Instructions)		8a	
b	CCC loans forfeited or repaid with certificates	8b	8c Taxable amount	8c
9a	Crop insurance proceeds received in 1988	9a	9b Taxable amount	9b
c	If election to defer to 1989 is attached, check here ▶ [ ]		9d Amount deferred from 1987	9d
10	Custom hire (machine work) income		10	
11	Other income, including Federal and state gasoline or fuel tax credit or refund (see Instructions)		11	28
12	**Gross income.** Add amounts in the right column for lines 3 through 11. If accrual method taxpayer, enter the amount from Part III, line 55 ▶		12	26,959

Part II Farm Deductions—Cash and Accrual Method (Do not include personal or living expenses such as taxes, insurance, repairs, etc., on your home.)

13	Breeding fees	13		25a	Labor hired	1,680
14	Chemicals	14	340	b	Jobs credit	
15	Conservation expenses (you must attach **Form 8645**)	15		c	Net labor hired (line 25a minus b)	25c 1,680
16	Custom hire (machine work)	16		26	Pension and profit-sharing plans	26
17	Depreciation and section 179 expense deduction (from Form 4562)	17	885	27	Rent of farm, pasture	27
				28	Repairs, maintenance	28 260
				29	Seeds, plants purchased	29 243
18	Employee benefit programs other than on line 26	18		30	Storage, warehousing	30
19	Feed purchased	19		31	Supplies purchased	31 188
20	Fertilizers and lime	20	1,950	32	Taxes	32 130
21	Freight, trucking	21	680	33	Utilities	33 100
22	Gasoline, fuel, oil	22	230	34	Veterinary fees, medicine	34
23	Insurance	23	210	35	Other expenses (specify):	
24	Interest:			a	Am. Vegetable Grw.	35a 24
a	Mortgage (paid to banks, etc.)	24a		b		35b
b	Other	24b		c		35c
				d		35d
				e		35e
36	Add amounts on lines 13 through 35e					36 6,920
37	Preproductive period expenses that are capitalized (see Instructions)					37
38	Subtract line 37 from line 36. These are your **total deductions**					▶ 38 6,920
39	**Net farm profit or (loss).** Subtract line 38 from line 12. If a profit, enter on Form 1040, line 19, and on Schedule SE, line 1. If a loss, you MUST go on to line 40. (Fiduciaries and partnerships, see Instructions.)					39 20,039

40 If you have a loss, you MUST check the box that describes your investment in this activity (see Instructions).

40a [ ] All investment is at risk.

40b [ ] Some investment is not at risk.

If you checked 40a, enter the loss on Form 1040, line 19, and Schedule SE, line 1. If you checked 40b, you MUST attach **Form 6198.**

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GLOSSARY

Accounts Receivable	Money owed to a business from a customer that purchased goods or services on credit.
Advertisement	Notice given in a manner designed to attract public attention as through bill boards, handbills, magazines, newspapers, placards, radio/TV, signs, sounds trucks, etc.
Advertising	The action of calling something to the attention of the, especially by paid announcements.
Bookkeeping	A system designed to record and summarize business transactions such as business purchases, cash sales, credit sales, equipment, inventory and payrolls by using ledgers - the bound paper on which the entries are posted.
Break Even Point	The volume of business that must be done to generate enough money to meet overhead obligations.
Business Checking Account	A bank checking account into which all business receipts are deposited and from which all business expenditures are drawn.

Business Plan	A brief written statement of how an entrepreneurial idea can be molded into a successful business; a road map of the proposed venture.
Business Receipt	Money a business receives for the sale of any goods or services.
Business Sign	A form of advertisement, usually permanent, located at the place of business.
Buying Signal	A statement or action on the part of a buyer that indicates a sale may likely be made to the customer.
Capital	Money
Capital Outlay	The money expended in acquiring, equipping and promoting an enterprise.
Cash Flow Projection	An estimate of money coming in and going out of a business during the upcoming month.
Competition	The rivalry between two or more businesses serving the same customers or markets.
Corporation	An artificial being which may legally own property, transact business, enter into contracts, sue and be sued, and engage in other

	business activities.
Credit	Time given for the payment of goods or services sold on trust terms.
Cyclic	To recur in a cycle, such as the sales of gasoline during summer months.
Double Entry Ledger System	A complete bookkeeping system that provides cross checks, automatic balancing of the books, minimizes errors and changes record keeping from a nuisance to an exact science.
Debits	Cash out, disbursements or expenditures.
Entrepreneur	A small business owner, especially one who organizes, manages, and assumes the risks of an enterprise of venture.
Entrepreneurship	The condition of being an entrepreneur, usually considered the actual business operated by the small business owner.
Expert	A person with a high degree of skill or knowledge in a certain subject.
Farm Income	Money derived through farming or ranching operations.
Feature	A characteristic of a product or a service.

FICA	Social Security;
Fixed Cost	A business expense, such as rent, that must be paid each month regardless of business sales volume.
Franchise	The license granted to an individual or group to market a company's goods and services, usually in an exclusive territory.
Franchisee	The person or group operating a licensed franchise.
Franchisor	The company or corporation granting a franchise license.
Goods	Commodities or tangible items bought and sold by businesses.
Gross Profit	The mere excess of sale price above purchase cost.
Growth Potential	The likely increase for a business, customer base, or demand for goods and services.
IRS	Internal Revenue Service
Long Run Profitability	The amount of profit a business will produce once it is established and stabilized.
Low Key Ads	Just the business name, phone number, logo, and products or services.
Manufacturer	One that produces something from raw materials by hand or by machinery.
Marketing	The commercial functions involved in transferring goods and services from businesses to consumers.

Market Segment	Those persons or businesses within a geographical area of demand for goods or services that a business may select as preferred potential customers.
Mobile Technician	A service technician that performs the service on the location of the equipment.
Motive	Something that causes a person to act.
Net Profit	The gain which remains after deductions of all expenses, charges, and other costs.
Overhead	Business expenses such as rent and utilities that are not chargeable to a particular part of the products or services.
Partnership	An association of two or more persons to carry on as co-owners a business for profit.
Payment voucher	IRS Form 1049 ES for quarterly installments.
Personal Draw	Money withdrawn from a business for non-business use.
Petty Cash	Cash used to pay for items such as a few postage stamps or calls made from phone booths.
Product Benefit	The way in which a product feature will help the customer.
Product Feature	The characteristics of a product or service offered for sale.
Profit	The excess of returns over expenditures.

Profiteering	Acquisition of excessive profits, especially on the sale of essential goods during times of emergency.
Proprietor	One who has the legal right or title to something; as a business owner.
Rank and File	Those workers hired by the management of a business to perform the directed tasks.
Receipts	Money collected; cash in.
Return on Investment	The profit of a business divided by the total business investment.
Sale	The act of selling by transferring the ownership of and title to property from on person or firm to another for a price.
Sales Closing	The summation of a sales pitch when the seller asks the prospective buyer to make the purchase.
Sales Pitch	The method by which a sales representative tries to get a prospect to become a purchaser.
Sales Promotion	The use of advertising, discounting, or publicity to increase the purchases of an item or items.
SBA	Small Business Administration
Services	To repair or provide maintenance for.
Service Oriented Business	A business that has a higher percentage of the receipts from services as opposed.

Silent Partner	Partners whose names are not known to the public, but who have money or expertise invested in the business, and who partake of profits.
Sole Proprietor	A business owned by one person and operated for their profit.
State Sales Tax	Tax money collected by Pennsylvania business on sales of certain goods or services and remitted to PA Department of Revenue.
Target Customers	A person or business that an entrepreneur determines as likely prospects.
Trade Journal	A periodical dealing especially with matters of current interest to a selected business.
Venture Capitalist	Person willing to loan money to entrepreneurs.
Yellow Pages	Advertisement section of a telephone book printed on yellow paper.